



Consolidated Financial Statements  
(Expressed in thousands of United States dollars)

**AFRICA OIL CORP.**

For the three months ended March 31, 2020 and 2019

# AFRICA OIL CORP.

Consolidated Balance Sheets  
(Expressed in thousands of United States dollars)  
(Unaudited)

		March 31, 2020	December 31, 2019
	<b>Note</b>		
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		\$ 72,525	\$ 329,464
Accounts receivable		184	161
Prepaid expenses		1,647	4,106
		74,356	333,731
Long-term assets			
Equity investment in joint venture	7	551,480	-
Equity investment in associates	7	82,003	63,563
Property and equipment		3,017	3,342
Intangible exploration assets	6	206,260	411,669
		842,760	478,574
<b>Total assets</b>		<b>\$ 917,116</b>	<b>\$ 812,305</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Accounts payable and accrued liabilities	5	\$ 70,928	\$ 40,962
Equity-based compensation liability	10	625	787
Lease obligations		1,220	1,233
		72,773	42,982
Long-term liabilities			
Equity-based compensation liability	10	713	587
Lease obligations		1,743	2,033
Long-term debt	8	204,792	-
		207,248	2,620
<b>Total liabilities</b>		<b>280,021</b>	<b>45,602</b>
Equity attributable to common shareholders			
Share capital	9(b)	1,306,456	1,305,953
Contributed surplus		50,265	51,389
Deficit		(728,521)	(590,639)
Accumulated other comprehensive income	7(a)	8,895	-
<b>Total equity attributable to common shareholders</b>		<b>637,095</b>	<b>766,703</b>
<b>Total liabilities and equity attributable to common shareholders</b>		<b>\$ 917,116</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

# AFRICA OIL CORP.

Consolidated Statements of Net Loss  
(Expressed in thousands of United States dollars)  
(Unaudited)

For the three months ended		March 31, 2020	March 31, 2019
	<b>Note</b>		
Operating income			
Share of profit/(loss) from equity investments	7	\$ 87,055	\$ (1,161)
Total operating income		87,055	(1,161)
Operating expenses			
Salaries and benefits		(940)	(428)
Equity-based compensation	10	315	(404)
Travel		(257)	(237)
Office and general		(505)	(271)
Project evaluation		(213)	(173)
Depreciation		(350)	(18)
Professional fees		(394)	(77)
Stock exchange and filing fees		(98)	(106)
Impairment of intangible exploration assets	6	(215,600)	-
Total operating expenses		(218,042)	(1,714)
Net operating expenses		(130,987)	(2,875)
Finance income	12	966	2,393
Finance expense	12	(7,861)	(29)
Net loss attributable to common shareholders		(137,882)	(511)
Net loss attributable to common shareholders per share	14		
Basic		\$ (0.29)	\$ (0.00)
Diluted		\$ (0.29)	\$ (0.00)
Weighted average number of shares outstanding for the purpose of calculating earnings per share	14		
Basic		471,311,393	470,653,859
Diluted		471,311,393	470,653,859

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

# AFRICA OIL CORP.

Consolidated Statements of Comprehensive Loss  
(Expressed in United States dollars)  
(Unaudited)

<b>For the three months ended</b>		<b>March 31, 2020</b>	<b>March 31, 2019</b>
	<b>Note</b>		
Net loss attributable to common shareholders		\$ (137,882)	\$ (511)
Other comprehensive income			
Share of joint venture other comprehensive income	7	8,895	-
Comprehensive loss		\$ (128,987)	\$ (511)

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

# AFRICA OIL CORP.

Consolidated Statements of Equity  
 (Expressed in thousands of United States dollars)  
 (Unaudited)

		March 31, 2020	March 31, 2019
	<b>Note</b>		
	<b>9(b)</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		415	204
Balance, end of the period		1,306,456	1,305,953
<b>Contributed surplus:</b>			
Balance, beginning of the period		\$ 51,389	\$ 50,821
Equity-based compensation	10	131	120
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		50,265	50,321
<b>Deficit:</b>			
Balance, beginning of the period		\$ (590,639)	\$ (433,870)
Net loss attributable to common shareholders		(137,882)	(511)
Balance, end of the period		(728,521)	(434,381)
<b>Accumulated other comprehensive income:</b>			
Balance, beginning of the period		\$ -	\$ -
Other comprehensive income	7	8,895	-
Balance, end of the period		8,895	-
Total equity attributable to common shareholders		\$ 637,095	\$ 921,893

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# AFRICA OIL CORP.

Consolidated Statements of Cash Flows  
(Expressed in thousands of United States dollars)  
(Unaudited)

For the three months ended		March 31, 2020	March 31, 2019
Cash flows provided by (used in):	<b>Note</b>		
Operations:			
Net loss for the period		\$ (137,882)	\$ (511)
Adjustments for:			
Equity-based compensation	10	(315)	404
Depreciation		350	18
Impairment of intangible exploration assets	6	215,600	-
Interest on lease obligations		33	6
Share of (profit)/loss from equity investments	7	(87,055)	1,161
Interest on term loan	8	7,760	-
Unrealized foreign exchange loss		57	7
Changes in non-cash operating working capital	17	2,223	(258)
Net cash provided by operating activities		771	827
Investing:			
Property and equipment expenditures		(25)	(7)
Intangible exploration expenditures	6	(10,191)	(13,141)
Equity investment in joint venture	7	(516,200)	-
Equity investment in associates	7	(16,969)	(6,293)
Dividends received from joint venture	7	87,500	-
Changes in non-cash investing working capital	17	1,880	4,209
Net cash used in investing activities		(454,005)	(15,232)
Financing:			
Term loan relating to acquisition of joint venture	8	250,000	-
Repayment of term loan	8	(52,968)	-
Settlement of Performance and Restricted Share Units	10	(342)	(676)
Payment of lease obligations		(338)	(19)
Net cash provided by (used in) financing activities		196,352	(695)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		(57)	(7)
Decrease in cash and cash equivalents		(256,939)	(15,107)
Cash and cash equivalents, beginning of the period		\$ 329,464	\$ 370,337
Cash and cash equivalents, end of the period		\$ 72,525	\$ 355,230
Supplementary information:			
Interest paid		(7,760)	Nil
Income taxes paid		Nil	Nil

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

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three months ended March 31, 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

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.

The Company's 2020 dividend income from its equity investment in Prime Oil and Gas B.V. ("Prime") is robust due to Prime's hedging program which has resulted in more than 90% of its 2020 production hedged at an average price of \$66.0 per barrel, and most of its Q1-2021 production to have been hedged at an average price of \$60.0 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.

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in thousands of United States dollars unless otherwise indicated)

(Unaudited)

The Company has a \$250.0 million two-year Term Loan with BTG drawn on January 14, 2020. \$45.2 million has been repaid during the first quarter of 2020. 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.

There are no covenants in place. The Company is reducing discretionary capital expenditure and G&A costs where possible and has sufficient financial strength to navigate through these difficult times until a possible recovery next year.

### 3) Basis of preparation:

#### 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 May 7, 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.

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in thousands of United States dollars unless otherwise indicated)

(Unaudited)

## 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:

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.

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in thousands of United States dollars unless otherwise indicated)

(Unaudited)

## 5) Accounts payable and accrued liabilities:

	March 31, 2020	December 31, 2019
Deferred consideration	\$ 24,800	\$ -
Joint venture payables and other provisions	40,632	39,266
Administrative accruals and other payables	5,496	1,696
	\$ 70,928	\$ 40,962

Please refer to Note 7(a) for details relating to deferred consideration.

## 6) Intangible exploration assets:

	Note	March 31, 2019	December 31, 2019
Net carrying amount, beginning of the period		\$ 411,669	\$ 515,823
Intangible exploration expenditures	(a)	10,191	35,360
Impairment of intangible exploration assets	(b)	(215,600)	(139,514)
Net carrying amount, end of the period		\$ 206,260	\$ 411,669

### a) Intangible exploration expenditures:

As at March 31, 2020, \$206.3 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 March 31, 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 will assume 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 three months ended March 31, 2020, the majority of the spend related to its activities in Kenya. The Company capitalized \$1.0 million of general and administrative expenses related to intangible exploration assets (three months ended March 31, 2019 - \$1.8 million).

### b) Impairment of intangible exploration assets

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 cash generating unit level ("CGU").

At December 31, 2019, the Company determined that the Kenyan development project 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.

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(Expressed in thousands of United States dollars unless otherwise indicated)

(Unaudited)

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 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.

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:

	March 31, 2020	December 31, 2019
<b>Equity investment in joint venture:</b>		
Investment in Prime	\$ 551,480	\$ -
<b>Equity investment in associates:</b>		
Investment in Eco	\$ 12,711	\$ 12,022
Investment in Africa Energy	22,226	17,882
Investment in Impact	47,066	33,659
	82,003	63,563
<b>Total Investment</b>	<b>\$ 633,483</b>	<b>\$ 63,563</b>

The Company recognized a total gain of \$87.1 million during the three months ended March 31, 2020, relating to its equity investments (\$1.2 million in losses for the three months ended March 31, 2019).

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in thousands of United States dollars unless otherwise indicated)

(Unaudited)

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 (formerly 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 an investment in 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 includes a deferred payment of \$24.8 million which is due by end of 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 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 remote, no provision was recorded at March 31, 2020.

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

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Net assets		
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		(15,137)
Loans and borrowings included in current liabilities		(620,973)
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
<hr/>		
Consideration		
Consideration issued	\$	544,500
Total purchase price	\$	544,500
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(1) The net assets of Prime was \$537.1 million. The total net assets acquired in the above table includes transaction fees of \$25.0 million as well as a purchase price adjustments of \$551.9 million.

During the first quarter of 2020, Prime distributed two dividends payments totaling \$175.0 million gross, with a net payment to Africa Oil of \$87.5 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.

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in thousands of United States dollars unless otherwise indicated)

(Unaudited)

	<b>March 31, 2020</b>
Balance, beginning of the period	\$ -
Acquisition of common shares	519,500
Transaction and related fees associated with the acquisition of common shares	25,000
Dividends received from Prime	(87,500)
Share of joint venture other comprehensive income	8,895
Share of joint venture profit	85,585
Balance, end of the period	\$ 551,480

During the three months ended March 31, 2020, the Company recognized a profit of \$85.6 million relating to its investment in Prime.

The following table summarizes Prime's financial information for the three months ended March 31, 2020. The information is based on non-audited financial information. Africa Oil is not aware of any material changes to the financial information.

	<b>March 31, 2020</b>
Other current assets	\$ 290,478
Cash and cash equivalents included in current assets	317,429
Non-current assets <sup>(1)</sup>	4,179,759
Other current liabilities	(151,986)
Loans and borrowings included in current liabilities	(650,258)
Financial liabilities included in current liabilities	(103,835)
Other non-current liabilities	(137,518)
Loans and borrowings included in non-current liabilities	(1,174,742)
Deferred income tax liabilities included in non-current liabilities	(1,466,367)
Net assets of Prime	1,102,960
Percentage ownership	50.0%
Proportionate share of Prime's net assets	\$ 551,480

	<b>March 31, 2020</b>
Revenue	\$ 358,948
Depreciation, depletion and amortization included in cost of sales	(129,654)
Cost of sales	(136,523)
Gross profit	222,425
Interest income	677
Finance charges	20,329
Profit before tax from continuing operations	288,092
Tax	(91,263)
Total profit for the period	196,829
Other comprehensive income	19,707
Total comprehensive income	216,536
Proportionate share of Prime's other comprehensive income <sup>(2)</sup>	8,895
Proportionate share of Prime's net gain <sup>(2)</sup>	\$ 85,585

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Notes to Consolidated Financial Statements

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(Unaudited)

- (1) At March 31, 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 gain is prorated from January 14, 2020, the date the acquisition was completed.

At March 31, 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 Company's 2020 dividend income from its equity investment in Prime is robust due to Prime's hedging program which has resulted in more than 90% of its 2020 production hedged at an average price of \$66.0 per barrel, and most of its Q1-2021 production to have been hedged at an average price of \$60.0 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.

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.

Prime has recently concluded a redetermination with its syndicate of Reserve Based Lending bank which resulted in a reconfirmation of the borrowing base, with loan repayments for 2020 lower than forecast.

The forecast dividends expected to be received from Prime has not changed significantly since acquisition due to the mitigating factors above.

In addition, the Company has a \$250.0 million two-year Term Loan, of which \$204.8 million is outstanding at March 31, 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.

The Company has determined that there are no indicators of impairment at March 31, 2020.

# AFRICA OIL CORP.

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(Expressed in thousands of United States dollars unless otherwise indicated)

(Unaudited)

b) Eco (Atlantic) Oil and Gas Ltd. ("Eco"):

The Company's ownership interest at March 31, 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.

	<b>March 31,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2019</b>
Balance, beginning of the period	\$ 12,022	\$ 10,192
Additional investment through private placements	-	5,000
Share of gain/(loss) from equity investments	689	(3,170)
Balance, end of the period	\$ 12,711	\$ 12,022

During the three months ended March 31, 2020, the Company recognized a gain of \$0.7 million relating to its investment in Eco (loss of \$0.07 million for three months ended March 31, 2019).

c) 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 from approximately 34.5% at December 31, 2019 to approximately 32.6% at March 31, 2020. Africa Energy holds participating interests in exploration blocks located offshore South Africa and offshore Namibia.

	<b>March 31,</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	(656)	(1,636)
Balance, end of the period	\$ 22,226	\$ 17,882

During the three months ended March 31, 2020, the Company recognized losses of \$0.7 million related to its investment in Africa Energy (three months ended March 31, 2019 - \$0.8 million).

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 March 31, 2020 the Company's ownership interest in Impact is approximately 32.2% compared to 29.9% at December 31, 2019.

	<b>March 31,</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 gain/(loss) from equity investments	1,438	(8,858)
Balance, end of the period	\$ 47,066	\$ 33,659

During the three months ended March 31, 2020, the Company recognized a gain of \$1.4 million related to its investment in Impact (three months ended March 31, 2019 - \$0.3 million in losses).

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Recent market events are not expected to have a material impact on the operations or liquidity of the equity investments and as a result, no impairment indicators have been identified.

## 8) Long-term debt:

	March 31, 2020		December 31, 2019	
Balance, beginning of the period	\$	-	\$	-
Drawdown		250,000		-
Interest expense		7,760		-
Interest repayment		(7,760)		-
Repayment		(45,208)		-
Balance, end of the period	\$	204,792	\$	-

The \$250.0 million loan facility ("Term Loan") with BTG was drawn on 14 January 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.

## 9) Share capital:

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

b) Issued:

	Note	March 31, 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	415	246,000	204
Balance, end of the period		471,949,806	\$ 1,306,456	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.

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

	March 31, 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 months ended March 31, 2020, the Company recognized \$0.1 million in equity-based compensation (three months ended March 31, 2019 - \$0.08 million), related to share purchase options.

## b) Performance share units ("PSUs")

The Company's PSUs outstanding are as follows:

	March 31, 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:

	March 31, 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

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## 11) Commitments and contingencies:

### 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 corporate income tax assessments, and the KRA may no longer appeal this decision. 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. This will be heard in Q2 2020.

### b) Contractual obligations:

#### i) 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 March 31, 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 March 31, 2020, the Company's working interest in Block 13T was 25%.

The Kenya Joint Venture (KJV) has initiated discussions with the Ministry of Petroleum and Mining (MoPM) on the details of a Field Development Plan (FDP), which would be submitted in advance of the expiry of the Exploration licenses on Blocks 10BB and 13T in September 2020. This submission in conjunction with the finalization of the commercial agreements that govern the development will transition the exploration licenses to 25 year Production licenses.

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 March 31, 2020, the Company's working interest in Block 10BA was 25%.

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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 remote, no provision was recorded at March 31, 2020.

## 12) Finance income and expense:

Finance income and expense for the three months ended March 31, 2020 and 2019 is comprised of the following:

<b>For the three months ended</b>	<b>March 31, 2020</b>	<b>March 31, 2019</b>
Interest and other income	\$ 966	\$ 2,393
Interest expense and bank charges	(7,804)	(22)
Foreign exchange loss	(57)	(7)
Finance income	\$ 966	\$ 2,393
Finance expense	\$ (7,861)	\$ (29)

## 13) Related party transactions:

a) 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 32.6% at March 31, 2020.

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 \$0.03 million during the three months ended March 31, 2020 (March 31, 2019 - \$0.03 million). At March 31, 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 during the three months ended March 31, 2020, (\$0.05 million for the three months ended March 31, 2019). At March 31, 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.

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## 14) Net loss per share:

For the three months ended	March 31, 2020			March 31, 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 income/(loss) attributable to common shareholders	\$ (137,882)	471,311,393	\$ (0.29)	\$ (511)	470,653,859	\$ (0.00)
Effect of dilutive securities						
Dilutive gain/(loss) per share	\$ (137,882)	471,311,393	\$ (0.29)	\$ (511)	470,653,859	\$ (0.00)

During the three months ended March 31, 2020, the Company used an average market price of CAD\$1.22 per share (three months ended March 31, 2019 – CAD\$1.14 per share) to calculate the dilutive effect of share purchase options. For the three months ended March 31, 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 loss per share (three months ended March 31, 2019, 10,795,500 options, 5,654,900 PSUs and 2,723,793 RSUs).

## 15) Financial risk management:

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 March 31, 2020, the Company held \$3.0 million (December 31, 2019 \$3.1 million) of cash in financial institutions outside of Canada where there could be increased exposure to credit risk.

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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 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 March 31, 2020, the Company had \$250.0 million Loan facility ("Term Loan") with BTG in which \$45.2 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 90% of its 2020 production to have been hedged at an average price of \$66.0 per barrel, and most of its Q1-2021 production to have been hedged at an average price of \$60.0 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.

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

## 16) Financial instruments:

Assets and liabilities at March 31, 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.

## 17) Supplementary information:

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

<b>For the three months ended</b>	<b>March 31, 2020</b>	<b>March 31, 2019</b>
Changes in non-cash working capital		
Accounts receivable	\$ (23)	\$ 265
Prepaid expenses	2,459	(118)
Due to related party	-	50
Accounts payable and accrued liabilities	1,667	3,754
	<u>4,103</u>	<u>3,951</u>
Relating to:		
Operating activities	\$ 2,223	\$ (258)
Investing activities	1,880	4,209
Changes in non-cash working capital	<u>\$ 4,103</u>	<u>\$ 3,951</u>

Note: Change in accounts payable and accrued liabilities excludes accruals relating to the acquisition of Prime.