AFRICA OIL CORP.

REPORT TO SHAREHOLDERS

FOR THE YEAR ENDED DECEMBER 31, 2021

AFRICAOILCORP.COM

GLOSSARY

	Term	Definition
	"2C resource"	means those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.
	"2P reserves"	means Proved and Probable Reserves.
A	"Africa Energy"	means Africa Energy Corp. an international oil and gas exploration company that holds a 27.5% participating interest in the offshore Exploration Right for Block 2B in South Africa, an effective 10% participating interest in offshore PEL 37, and an effective 10% participating interest in the Exploration Right for Block 11B/12B offshore South Africa.
	"Africa Oil", "AOC", or the "Company"	means Africa Oil Corp.
	"AGC"	means Senegal Guinea Bissau Joint Development Zone.
	"AGL"	means Azinam Group Ltd.
	"Applicable law"	means various laws and regulations issued by authorities that have appropriate jurisdiction over it.
	"Azinam"	means Azinam Ltd.
B	"bopd"	means barrels of oil per day.
	"BTG"	means BTG Pactual S.A.
	"Term Loan"	means a $250.0m facility dated January 11, 2020, provided by BTG Pactual S.A for the purpose of funding the acquisition of 50% of Petrobras Oil & Gas B.V. (now Prime Oil & Gas Coöperatief U.A.).
C	"CGU"	means Cash Generating Unit. A Cash Generating Unit is defined as assets that are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.
	"Chevron"	means Chevron Corp.
	"CIT"	means Corporate Income Tax.
	"Concessions", "PSC" or "Production Sharing Contract"	means concessions, production sharing contracts and other similar agreements entered into with a host government providing for petroleum operations in a defined area and the division of petroleum production from the petroleum operations.
	"Corporate Facility"	means a $150.0 million facility dated May 13, 2021, with a three-year term, amended to a $160.0 million facility on July 16, 2021, and subsequently amended on January 28, 2022, to increase the available amount under the facility to $100.0 million from the then unutilized amount of $62.0 million, and an extension of the availability period to December 31, 2022, from May 13, 2022.
D	"DD&A"	means Depreciation, Depletion and Amortization.
E	"E&A"	means Exploration and Appraisal.
	"EBITDA"	means Earnings Before Interest, Taxes, Depreciation & Impairment, and Amortization.
	"EBITDAX"	means Earnings Before Interest, Taxes, Depreciation & Impairment, Amortization and Exploration Expenses.
	"Eco"	means Eco (Atlantic) Oil & Gas Ltd. An international oil and gas exploration company that holds working interests in four exploration blocks offshore Namibia and one exploration block offshore Guyana.
	"Entitlement production"	means production that is calculated using the economic interest methodology and includes cost recovery oil, tax oil and profit oil.
	"Equinor"	means Equinor ASA.
	"ESG"	means Environmental, Social and Governance.
	"ESIA"	means Environmental and Social Impact Assessment.
F	"FCF"	means Free Cash Flow.
	"FDP"	means Field Development Plan.
	"FID"	means Final Investment Decision.
	"FPSO"	means Floating Production Storage and Offloading.

G	"GCA"	means Gaffney, Cline & Associates.
	"GoK"	means Government of Kenya.
	"Gold Standard"	means a voluntary carbon offset program focused on progressing the United Nation's Sustainable Development Goals and ensuring that the projects benefit their neighbouring communities.
I	"Impact"	means Impact Oil and Gas Ltd, a privately owned exploration company with a strategic focus on large scale, mid to deep water plays of sufficient materiality to be of interest to major companies. Impact has an asset base across the offshore margins of Southern and West Africa.
J	"JHI"	means JHI Associates Inc.
	"JV"	means Joint Venture.
K	"KRA"	means Kenya Revenue Authority.
L	"LTIP"	means Long Term Incentive Plan.
	"Lokichar Development Project"	means the development of the oil resources contained in the South Lokichar Basin (Blocks 10BB and 13T (Kenya)), for export via a pipeline to the coast of Kenya.
M	"MD&A"	means Management's Discussion and Analysis.
	"MMbbl"	means one million barrels.
	"MMBoe"	means millions of barrels of oil equivalent.
N	"NI 51-101"	means National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators and the companion policies and forms thereto, as amended from time to time.
	"NI 52-109"	means National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings and the companion policies and forms thereto, as amended from time to time.
O	"OML"	means Oil Mining Lease.
P	"Petrovida"	means Petrovida Holding B.V.
	"PIA"	means Petroleum Industry Act.
	"PPT"	means Profit Petroleum Tax.
	"Prime" or "Prime Oil & Gas Coöperatief U.A."	means Prime Oil & Gas Coöperatief U.A., previously known as Prime Oil & Gas B.V., a company that holds interests in deepwater Nigeria production and development assets.
	"Project Oil Kenya"	means the Company's Kenya development project incorporating Blocks 10BB and 13T.
	"PSA"	means Petroleum Sharing Agreement.
	"PXF Facility"	means Pre-Export Finance Facility.
R	"RBL"	means Reserve Base Loan.
S	"Spudded"	means the initial drilling for an oil well.
T	"TAT"	means Tax Appeals Tribunal.
	"Total"	means TotalEnergies SE and subsidiaries.
	"TSX"	means Toronto Stock Exchange.
	"Tullow"	means Tullow Oil plc.
U	"US"	means United States.
V	"VAT"	means Value-added tax.
W	"WI"	means Working Interest.
	"WI production"	means production based on the percentage of working interest owned.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis ("MD&A") focuses on significant factors that have affected the Company during the year ended December 31, 2021, and such factors that may affect its future performance. To better understand the MD&A, it should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2021, and December 31, 2020, and related notes thereto.

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

The effective date of this MD&A is February 28, 2022.

Additional information about the Company and its business activities is available on the Company's website at www.africaoilcorp.com and on SEDAR at www.sedar.com.

PROFILE AND STRATEGY

AOC is a Canadian oil and gas company with producing and development assets in deep-water Nigeria, and development assets in Kenya. The Company also has a portfolio of exploration/ appraisal assets in Guyana, Kenya, Namibia, Nigeria, South Africa and in the AGC. The Company holds its interests through direct ownership interests in concessions and through its shareholdings in investee companies, including Prime, Africa Energy, Eco and Impact.

The Company has made numerous oil discoveries in the South Lokichar Basin (Blocks 10BB and 13T) located in the Tertiary Rift trend in Kenya. The Company together with its JV partners are currently running a farm-out process to attract a strategic partner with the goal of sanctioning development of the oil fields in the South Lokichar Basin.

The Company will institute a shareholder capital return program in 2022, in the form of a payment of semi-annual dividends. On February 28, 2022, the Board of Directors approved an initial aggregate annual dividend of $0.05 per share (approximately $25.0 million) to be declared and paid semi-annually commencing at the end of March 2022. The Board of Directors view the 2022 annual distribution to be prudent with due consideration for the acquisition-led business strategy and the priority of maintaining a strong balance sheet in a range of market scenarios. The Board of Directors, at their discretion and subject to the necessary approvals, may approve future increases to the dividend distributions and/or may approve the implementation of share buy-backs contingent on favorable business and commodity price outlooks, and the impact of possible acquisitions or divestments.

HIGHLIGHTS AND OUTLOOK

2021 Highlights

- Record net income of $190.7 million in 2021, cash balance at December 31, 2021, of $58.9 million, and debt fully repaid.
- The Company received four dividends from its shareholding in Prime, totaling $200.0 million in 2021, recovering 77% of the purchase price in two years.
- The Company has announced the Board of Directors has established a new dividend policy, with an initial annual aggregate dividend of $0.05 per share (approximately $25.0 million), to be declared and paid semi-annually commencing at the end of March 2022. The Board will adapt the dividends distributed for any excess cash flow generated by the Company going forward.
- WI 2P Reserves of 72.8 MMboe at December 31, 2021, net to the Company's 50% shareholding in Prime. This constitutes a 2P reserves replacement ratio of 102% for 2021. Entitlement 2P Reserves of 82.1 MMboe at December 31, 2021, net to the Company's 50% shareholding.
- Inaugural ESG Review published in March 2021, followed up with a comprehensive Sustainability Report, published on February 28, 2022. Full materiality assessment and TCFD compliant scenario analysis conducted in Q4 2021.
- In 2021, the Company set a target to achieve carbon neutrality by 2025. Towards this goal, the Company purchased an initial tranche of offsets covering >20% of Scope 1 and 2 emissions from a Gold Standard certified clean cookstove project in Kenya, and began feasibility studies for direct investment in a proprietary nature-based carbon removal project.
- Refinanced the Prime acquisition loan for a significantly lower margin Corporate Facility, and reduced the corporate debt from $141.0 million at 1 January 2021 to nil on 30 November 2021.
- Post year-end, the Corporate Facility was amended to increase the available amount to $100.0 million from $62.0 million, to defer the amortization profile of the available amount and to extend the availability period to December 31, 2022, from May 13, 2022. This provides the Company with a stand-by line of liquidity of $100.0 million available for general corporate purposes, including acquisitions, until end 2022.
- In December 2021 the Project Oil Kenya JV Partners submitted an FDP for the 10BB and 13T licenses. The JV Partners continue to seek a strategic partner for this project and constructive discussions continue with interested parties.
- On February 24, 2022, Impact announced a major light oil discovery on Block 2913B, offshore Namibia. The Venus-1 exploration well spudded in December 2021 and the well was drilled to a total depth of 6,296 meters by the operator TotalEnergies. It encountered a high-quality, light oil-bearing sandstone reservoir of Lower Cretaceous age, with 86 meters of net oil pay. The Company has an indirect effective interest of approximately 6.2% to this block through its shareholding in Impact.

HIGHLIGHTS AND OUTLOOK - CONTINUED

Prime Highlights

- Selected Prime results net to the Company's 50% shareholding:
  - Cash position of $258.9 million and debt balance of $508.4 million at December 31, 2021; Robust Net Debt to EBITDAX of 0.4x;
  - Average daily WI production of 26,400 boepd and economic entitlement production of 28,500 boepd (83% light and medium crude oil and 17% conventional natural gas) in Q4 2021;
  - Average daily WI production of 27,300 boepd and economic entitlement production of 29,700 boepd (84% light and medium crude oil and 16% conventional natural gas) for full year 2021, at the top end of the 2021 Management Guidance;
  - in Q4 2021, EBITDAX of $163.4 million and in 2021, EBITDAX of $654.5 million;
  - in Q4 2021, cash generated from operating activities of $60.6 million and in 2021, cash generated from operating activities of $526.7 million.
- On June 25, 2021, Prime signed a Securitization Agreement with Equinor and Chevron, whereby Equinor paid Prime a $305.0 million as security deposit pending a comprehensive resolution being reached among all unit parties in respect of the tract participation in the Agbami field.
- On July 1, 2021, the OML 130 Gas Sales and Purchase Agreement was signed by all parties, resolving historical gas sales from July 2018.
- On August 16, 2021, the PIA was signed into law by the President of Nigeria, providing clarity on the future fiscal regime under which the fields can continue to be operated and developed.
- On October 27, 2021, Prime signed and closed a PXF Facility for an initial amount of $150.0 million and a 7-year tenor. The use of proceeds of the PXF Facility is to partly repay Prime's RBL Facility and other general corporate purposes. On November 30, 2021, the PXF Facility was increased to $300.0 million. $150.0 million of the PXF Facility has been drawn to partially repay the RBL Facility with another $150.0 million remaining undrawn and available until April 2024.

Outlook

The Company's debt-free balance sheet, its share of Prime's cash flows and access to debt funding on competitive terms, supports a range of opportunities for the Company to achieve accretive growth and create shareholder value. The Company's valuation is underpinned by its 50% shareholding in Prime, which accounts for all of the Company's reserves and production interests.

The Company will work to maximize Prime's dividends by distributing its excess cash, whilst maintaining a prudent treasury management policy at Prime. The near-term priority is to extend Prime's debt tenor with the primary objective over the next year of refinancing Prime's RBL facility, possibly facilitated by the voluntary early conversion of Prime's licenses in Nigeria to the new PIA terms. The Company's management will also work with Prime to assess other financing options that could extend Prime's debt maturity profile on competitive costs, such as the PXF facility that was arranged by Prime in 2021. An extension of Prime's debt tenor is anticipated to allocate more of Prime's near-term cash flows towards the payment of dividends to its shareholders, including the Company.

Dividends received from Prime will support the Company's shareholder capital return programs and business development activities that are focused on the acquisition of producing assets.

The Company is committed to a sustainable dividend policy over the future years. The Company expects to initially distribute a minimum annual dividend of approximately $25.0 million during 2022, which has been determined by the Board to strike a prudent balance between allocating capital for potential acquisitions, shareholder capital returns and maintaining a robust balance sheet in a range of oil market conditions. The Board will regularly review this policy and depending on the Company's progress in maturing acquisition opportunities and the market outlook, the Board may approve additional distributions and/or share buybacks, subject to the customary approvals. As always, the declaration of dividends is at the discretion of the Board.

The Company has been actively working on the acquisition of strategic producing assets that are accretive on per share valuation and cashflow metrics. The Company has maintained a very disciplined approach towards this goal with detailed technical, commercial and legal due diligence applied for each opportunity and the primary goal of not diluting or risking the current strong investment case. The Company's focus remains on buying producing assets offshore West Africa and the management will consider both operated and non-operated opportunities as well as oil and natural gas assets. The Board may also consider corporate merger and acquisition opportunities if there is strong strategic rationale for such a transaction with strong prospects to increase shareholder value. There is no guarantee that the Company can complete such transactions and it will update the market during the year on its efforts.

During 2021, the Company and its JV Partners (Tullow Oil and TotalEnergies) have completed the redesign of Project Oil Kenya to ensure it is technically, commercially and environmentally robust. The Company and its partners initiated a farm-out process for Project Oil Kenya in 2021. Advanced discussions are on-going with the interested parties. A successful farm-out is viewed by the Company as a critical step towards the FID for Project Oil Kenya being achieved over the course of next year. There is no guarantee that the Company can successfully conclude a farm-out to new strategic partner(s) on favorable terms. The Company will update the market on this process in due course.

Environmental, social and governance considerations will be key in evaluating these and all other strategic options going forward. Emissions will be a particular focus, recognizing the increasing importance our shareholders and other stakeholders place on

HIGHLIGHTS AND OUTLOOK - CONTINUED

understanding and managing climate-related risks. Over the next year, the Company will develop a detailed energy transition strategy to achieve its stated objective of reaching net neutrality by 2025, including setting short, medium and long-term emissions targets. Any potential investment decision will be carefully evaluated for alignment with that strategy and objective.

2022 Management Guidance

he Company's 2022 production will be contributed solely by its 50% shareholding in Prime. The 2022 Management Guidance includes WI production guidance range of 22,500-25,500 boepd and net entitlement production range of 23,000 – 27,000 boepd with approximately 84% expected to be light and medium crude oil and 16% conventional natural gas.

Net entitlement production estimate is based on a 2022 Brent price of $87.0/bbl being the average of the Brent forward curve as of February 15, 2022. Net entitlement production is calculated using the economic interest methodology and includes cost recovery oil, tax oil and profit oil and is different from WI production that is calculated based on project volumes multiplied by Prime's effective WI.

It is expected that Prime will lift 11-13 cargoes (5.5-6.5 cargoes net to the Company) in 2022 for its share of cost and profit oil. The average cargo lifted is for one million barrels of oil. Prime has forward sold its first 10 cargos in 2022 at average Dated Brent price of $73.1/bbl. The actual price will include a quality and shipping cost adjustment which means the realized price will be different to the hedged prices. At the date of this MD&A, Prime has lifted 3 cargoes with an average realized price of $66.0/bbl and is expected to lift another two cargoes by end of Q1 2022 at average Dated Brent price of $70.1/bbl. Remaining five cargoes that are sold forward are at average Dated Brent Price of $78.6/bbl.

Based on the above production and cargo lifting ranges and Prime's current 2022 hedging program, the Company's management estimate Prime to generate cash flow from operations(1) of approximately $300-$400 million net to the Company's 50% shareholding.

Any dividends(2) received by the Company from Prime's operating cash flows and cash on hand will be subject to Prime's capital investment and financing cashflows, including Prime's RBL interest payments and principal amortization. Net to the Company's 50% shareholding, Prime's 2022 capital investment is expected to be in the range of $40-$70 million and its debt repayment in the range $200-$230 million. Prime had a cash and cash equivalents balance of $258.9 million net to the Company's 50% shareholding at December 31, 2021.

The Company's 2022 corporate budget is estimated to be approximately $23-$25 million and includes pre-FID budget for Project Oil Kenya, G&A and exploration activities.

2022 Management Guidance and 2021 Actuals

Prime, net to AOC's 50% shareholding:	2022 Guidance	2021 Actuals
WI production (boepd)	22,500-25,500	27,300
Economic entitlement production (boepd)	23,000-27,000	29,700
Cash flow from operations(1) (million)	$300-$400	$536
Capital investment (million)	$40-$70	$25
Net Debt repayment (million)	$200-$230	$218
Africa Oil's corporate budget (million)	$23-$25	$18

(1) Cash flow from operations before working capital adjustments.

(2) Prime does not pay dividends to its shareholders, including the Company, on a fixed pre-determined schedule. Previous number of dividends and their amounts should not be taken as a guide for future dividends to be received by the Company. Any dividends received by the Company from Prime's operating cash flows will be subject to Prime's capital investment and financing cashflows, including payments of Prime's RBL principal amortization, which are subject to semi-annual RBL redeterminations.

THE COMPANY'S SHAREHOLDING AND WORKING INTERESTS

The Company's material interests, and material exploration partnership interests are summarized in the following table:

Africa Oil's Shareholding in Prime Oil & Gas Coöperatief U.A. (50%)

Country	Concession	License renewal	Working Interests	
NIGERIA	OML 127	December 13, 2024 (1)	Prime	8%
			Chevron Corporation	32%
			Famfa Oil	60% (carried)
	OML 130 – PSA (2)	February 28, 2025 (1)	Prime	16%
			TotalEnergies	24%
			SAPETRO	10% (carried)

Africa Oil's Direct Working Interests (3)

Country	Concession	License renewal	Working Interests	
KENYA	Block 13T	December 31, 2021(4)	AOC	25%
			TotalEnergies	25%
			Tullow (Operator)	50%
	Block 10BB	December 31, 2021(4)	AOC	25%
			TotalEnergies	25%
			Tullow (Operator)	50%
	Block 10BA	April 22, 2022(5)	AOC	25%
			TotalEnergies	25%
			Tullow (Operator)	50%
SOUTH AFRICA	Block 3B/4B	March 26, 2022(6)	AOC (Operator)	20%
			Azinam	20%
			Ricocure (Pty) Ltd	60%

(1) In accordance with the Petroleum Act, renewal shall be granted for 20 years if the lessee has paid all rent and royalties due and has otherwise performed all their obligations under the lease. Management believes that this will be renewed, in common with other licenses. The PIA includes the provision for leases to be converted earlier than their license renewal date.

(2) 50% of the production from OML 130 is covered by a PSA, in which Prime owns a 32% WI. Prime's net WI in OML 130 is therefore 16%.

(3) Net WI are subject to back-in rights or carried WI, if any, of the respective governments or national oil companies of the host governments.

(4) The licenses were extended to December 31, 2021 and required that the JV partners submit a FDP. The FDP was submitted in December 2021 and is now subject to governmental review, during which time the license is retained in good full force and effect. The JV partners expect the license to be renewed once the review is complete.

(5) 10BA was included in the E&A plan, submitted as part of the Block 10BB/13T FDP. Further discussions are expected to take place to extend the license.

(6) The Company is in discussions with its JV Partners, and expects to apply to renew this license shortly.

Information on the Company's equity interests in Africa Energy, Eco and Impact is included in 'Equity Investments in Associates' on page 14.

BUSINESS UPDATE

The economic environment for oil producers has continued to stabilize and improve in 2021, with the closing Brent oil price above $80/bbl after lows of approximately $20/bbl in April 2020. Full year 2021 average Brent prices were $71/bbl, in excess of the average price in 2020 of $42/bbl. OPEC+ quotas that restricted production in 2020 and most of 2021 were relaxed from August 2021, increasing Nigeria's overall production by 0.4 million barrels per day, every month, until previously imposed restrictions have been removed. The recovery in oil demand is expected to continue in 2022 and to lead to further increases in oil price as global demand increases back to pre-pandemic levels with continued increases in vaccination rates and a reduction of the impact of the pandemic.

EQUITY INVESTMENT IN PRIME – NIGERIA

The main assets of Prime are an indirect 8% working interest in OML 127 and an indirect 16% working interest in OML 130. OML 127 is operated by affiliates of Chevron and covers part of the producing Agbami field. OML 130 is operated by affiliates of TotalEnergies and contains the producing Akpo and Egina fields. The three fields in these two OMLs are located over 100 km offshore Nigeria. All three fields have high quality reservoirs and produce light to medium sweet crude oil through FPSO facilities. Akpo and Egina also produce natural gas that is exported onshore for sale, whilst Agbami gas is reinjected.

All amounts included in the narrative discussions below are net to the Company's 50% shareholding in Prime, unless otherwise noted.

On February 28, 2022, the Company published its Annual Information Form, including the Year End 2021 Statement of Reserves. Refer to the "Advisory Regarding Oil and Gas Information" section of this MD&A on page 26 for important information, including definitions. The Statement of Reserves, based on the Company's 50% ownership interest in Prime, showed December 31, 2021, WI and net entitlement 2P reserves of 72.8 million MMboe (as at December 31, 2020 – 72.6 MMboe) and 82.1 MMboe (as at December 31, 2020 – 85.8 MMboe), respectively. This is a WI 2P reserves replacement ratio of 102% and is the result of strong reservoir performances with positive technical revisions, improvements in the oil price forecast and resource transfers of 4.1 MMboe from 2C to 2P, compared with a production of 10.0 MMboe net to the Company's 50% shareholding. The Company's reserves are comprised of light and medium crude oil and conventional natural gas.

Production and Operations

Production Metrics – rounded

		Three months ended		Year ended	
	Unit	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Total gross field production	boepd	409,200	419,000	427,300	457,000
Net to AOC's 50% shareholding:					
Average daily WI production	boepd	26,400	26,200	27,300	28,700
Average daily entitlement production	boepd	28,500	30,100	29,700	33,900
Oil volumes sold	MMbbl	2.0	1.5	8.5	9.5
Gas volumes sold	bcf	2.6	2.6	10.3	10.6
Oil/gas percentage split	%	83%/17%	88%/12%	84%/16%	85%/15%

Quotas impacting Egina field were relaxed in June 2021, enabling all assets to produce without restrictions from Q3 2021. Q4 2021 gross field production was lower than Q4 2020, primarily as a result of expected reservoir decline and an increased in planned activities in the period including maintenance, new well tie in, well testing and pigging. Reduction in gross field production between year ending 2020 and 2021 is also primarily a result of expected field decline. Overall, performance both in Q4 2021 and for full year 2021 fell within the top quartile of the 2021 management guidance and reservoir performance remains in line with expectation.

With the recovery in oil prices, there is now greater attention on project activities to support production levels from Prime's assets. During Q4 2021, the Akpo infill well, AU4P4, was completed and commenced production. The well has been performing in line with the pre-drill expectation. In line with supporting further infill drilling, a 4D seismic survey was completed over Egina in Q4 2021, with between 4 and 6 development wells expected to be drilled in OML 130 during 2022.

Net entitlement production is calculated using the economic interest methodology and includes cost recovery oil, tax oil and profit oil. It differs from WI production that is calculated based on field volumes multiplied by Prime's effective WI in each license. The cargoes described below represent Prime's share of cost oil and profit oil and do not include tax oil and royalties, being Prime's share of entitlement production that is sold by the operators to settle its tax and royalty obligation to the Nigerian state. Aggregate oil equivalent production data comprised of light and medium crude oil and conventional natural gas production net to Prime's WI in Agbami, Akpo and Egina fields. These production rates only include sold gas volumes and not those volumes used for fuel, reinjected or flared.

In Q4 2021, Prime was allocated 4 oil liftings with total sales volume of approximately 4.0 million barrels or 2.0 million barrels net to the Company's 50% shareholding. In Q4 2020, Prime was allocated 3 oil liftings with total sales volume of approximately 2.9 million barrels or 1.5 million barrels net to the Company's 50% shareholding.

In 2021, Prime lifted and sold 17 cargos representing a sales volume of 17.0 million barrels or 8.5 million barrels net to the Company's 50% shareholding. In 2020, Prime lifted and sold 20 cargos representing a sales volume of 19.0 million barrels or 9.5 million barrels

net to the Company's 50% shareholding.

Financial

Prime's financial information is presented in note 6 of the financial statements on a 100% basis, with a reconciliation to the Company's 50% share of Prime's net assets and net income. In Q4 2021, the share of profit from the 50% investment in Prime was $56.1 million (Q4 2020 - $59.2 million) and in the year 2021, the share of profit was $224.4 million (year 2020 - $209.0 million). As at December 31, 2021, the Company's investment in Prime was $617.1 million (as at December 30, 2020 - $561.3 million). The discussion below provides analysis of the reasons for these amounts changing in the periods presented.

All amounts presented and discussed below are net to AOC's 50% shareholding in Prime (unless otherwise stated) to reflect AOC's 50% shareholding in Prime.

Financial Metrics

		Three months ended		Year ended	
Net to AOC's 50% shareholding:	**Unit**	**December 31, 2021**	**December 31, 2020**	**December 31, 2021**	**December 31, 2020**
Total revenues	$'m	153.9	94.8	610.2	646.1
Cost of Sales	$'m	63.7	41.5	271.0	284.7
Gross profit	$'m	90.2	53.3	339.2	361.4
Opex/boe (1)	$/boe	8.8	7.4	7.6	6.0
Cash generated from operating activities	$'m	60.6	89.1	526.7	525.2
Free cash flow/boe (2)	$/boe	33.8	33.9	33.9	41.5
Capex	$'m	10.0	5.3	25.3	15.0
Dividends paid	$'m	50.0	62.5	200.0	200.0
Cash and cash equivalents	$'m	258.9	115.7	258.9	115.7
Loans and borrowings	$'m	508.4	651.4	508.4	651.4

(1) Opex represents production costs presented on Prime's Statement of Net Income and Other Comprehensive Income in note 6 to the financial statements

(2) BOE is calculated on an entitlement basis. Definitions and reconciliations to these non-GAAP measures are provided on pages 10 and 11.

Revenues

		Three months ended		Year ended	
	Unit	**December 31, 2021**	**December 31, 2020**	**December 31, 2021**	**December 31, 2020**
Per Prime's financial statements					
Total revenue	$'m	307.8	189.6	1,220.3	1,292.2
Net to AOC's 50% shareholding:					
Oil revenue	$'m	125.4	86.4	503.5	608.2
Gas revenue	$'m	5.8	-	49.4	-
PPT revenue	$'m	18.5	6.3	41.9	25.3
Royalties	$'m	4.2	2.1	15.4	12.6
Total revenue	$'m	153.9	94.8	610.2	646.1
Realized oil prices	$/ bbl	62.1	59.6	59.3	64.0
Oil volumes sold	Mbbl	2.0	1.5	8.5	9.5

BUSINESS UPDATE - CONTINUED

The increase in oil sales revenue in Q4 2021 was due to higher volumes lifted, and a higher realized price of $62.1/bbl, compared with $59.6/bbl in Q4 2020. The average Dated Brent price in Q4 2021 was $79.6/bbl and for Q4 2020 this was $44.3/bbl. In 2021, revenue was lower due to lower volumes lifted and a lower realized oil price of $59.3/bbl in 2021 compared with $64.0/bbl in 2020. The average Dated Brent price for 2021, was $70.7/bbl and for 2020, this was $42.0/bbl.

Gas sales revenue was recognized for the first time in 2021, due to the signing of the OML 130 Gas Sales and Purchase Agreement in July 2021 resolving historical gas sales from July 2018. The agreement has provided clear delineation for the allocation of the gas sale proceeds to all participating parties and sets out the terms for gas revenues accrued since July 2018. As the terms for sale were only agreed in 2021, Prime did not have the right to recognize revenue until the current year. Gas sales in 2021 included an additional $29.2 million recognized relating to the period from July 2018 to December 2020.

PPT revenue is revenue recognized for tax oil, being Prime's share of entitlement production that is sold by the operators to settle its tax obligation to the Nigerian state. As the tax oil lifted by the operator on behalf of Prime is sold to 3rd party customers and proceeds are used to settle Prime's tax liabilities, this share of PPT is considered to be within the scope of IFRS 15, 'Revenue from contracts with customers'. Consequently, this portion of income tax is presented gross in revenue and offset in current income tax expense.

Royalties were previously recognized net in Prime's income statement, and are now presented gross in both revenue and cost of sales. Royalties of $35.0 million relating to Akpo have not yet been paid and are included in cost of sales and working capital as current liabilities. The Akpo royalties were not previously accrued due to uncertainties over payment which were resolved when the Petroleum Industry Act was enacted on August 16, 2021.

Cost of sales

	Three months ended		Year ended	
$'m	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Per Prime's financial statements				
Total cost of sales	127.4	83.0	542.1	569.4
Net to AOC's 50% shareholding:				
DD&A	37.3	53.9	151.7	223.9
Production costs	23.0	20.1	82.5	74.8
Movements on overlift/ underlift balances	(4.9)	(34.7)	(16.0)	(26.5)
Royalties – oil and gas	8.3	2.2	52.8	12.5
Total cost of sales	63.7	41.5	271.0	284.7

Cost of sales has increased in Q4 2021, compared to Q4 2020, due to the lower net movement on the overlift and underlift positions, an increase in production costs due to planned maintenance on Agbami and the recognition of royalties on oil sales on the Akpo field for the first time in 2021. This was offset by a reduction in the DD&A charge, mainly due to lower entitlement production and an increase to the 2P reserve base in OML 130. In 2021, cost of sales has decreased primarily as a result of the decrease in the DD&A charge as a result of lower entitlement production offset by an increase in the royalties recognized on oil sales. Royalties have been recognized on sales made from Akpo from the period between November 2019 and December 31, 2021, implemented under the Deepwater Production Act and reaffirmed in the PIA. The royalties were first recognized in Q3 2021. There are no royalties on Egina sales as it has been granted a royalty holiday until January 2024, being 5 years after first oil.

Opex/boe

Opex/boe is a non-GAAP measure which represents production costs on a per barrel of oil equivalent basis (using entitlement production). This allows the Company to better analyze performance against prior periods on a comparable basis. The most direct financial statement measure is production costs, disclosed in note 6 to the financial statements. Net entitlement production is calculated using the economic interest methodology and includes cost recovery oil, tax oil, profit oil and royalties and is different from WI production that is calculated based on project volumes multiplied by Prime's effective WI in each license.

	Three months ended		Year ended	
$'m	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Per Prime's financial statements				
Production costs	46.0	40.2	165.1	149.6
Net to AOC's 50% shareholding:				
Production costs	23.0	20.1	82.5	74.8
Entitlement production - mboe	2.6	2.7	10.8	12.4
Opex/ boe	8.8	7.4	7.6	6.0

BUSINESS UPDATE - CONTINUED

The increase in Q4 2021 compared to Q4 2020 is due to higher costs in Q4 2021 from the execution of planned maintenance activities on Agbami. The increase in 2021 compared to 2020 are due to the higher maintenance costs and the average production reducing in 2021 compared to 2020. Due to the implementation of NI52-112 non-GAAP measures, the comparative figures have been revised to ensure comparability and consistency of calculation. Previously reported opex/boe for Q4 2020 was $5.9/boe and for the year 2020, opex/boe was $5.2/boe, due to the former methodology using a weighted average cost per field and a broader definition of operation costs.

Cash generated from operating activities

	Three months ended		Year ended	
$'m	**December 31, 2021**	**December 31, 2020**	**December 31, 2021**	**December 31, 2020**
Per Prime's financial statements				
Cash generated from operating activities	121.2	178.1	1,053.4	1,050.4
Net to AOC's 50% shareholding:				
Cash generated from operating activities	60.6	89.1	526.7	525.2
Working capital adjustments included in cash generated from operating activities				
Changes in trade receivables	(77.7)	9.4	(77.6)	28.7
Changes in over/underlift balances	(4.9)	(34.7)	(16.0)	(26.5)
Changes in other working capital balances	68.8	74.6	84.1	41.5
Total working capital adjustments	(13.8)	49.3	(9.5)	43.7
Cash generated from operating activities before working capital	74.4	39.8	536.2	481.5

Cash generated from operating activities has decreased in Q4 2021, from Q4 2020, as the working capital adjustments have moved from a positive value to a negative value. Cash generated from operating activities has remained consistent between 2021 and 2020.

FCF and FCF/boe

FCF before working capital adjustments is a non-GAAP measure. This measure represents cash generated after costs, and is a measure commonly used to assess the Company's profitability. A reconciliation from total cash flow (a GAAP measure) to FCF (a non-GAAP measure) is shown below:

		Three months ended		Year ended	
	Unit	**December 31, 2021**	**December 31, 2020**	**December 31, 2021**	**December 31, 2020**
Per Prime's financial statements					
Total cash flow	$'m	28.1	142.6	286.5	90.9
Add back changes in working capital	$'m	27.5	(98.7)	19.2	(87.4)
Add back dividends	$'m	100.0	125.0	400.0	400.0
Add back debt service costs [(1)]	$'m	20.1	13.9	330.9	626.1
Less Security Deposit received [(2)]	$'m	-	-	(305.0)	-
FCF (excluding working capital adjustment)	$'m	175.7	182.8	731.6	1,029.6
Net to AOC's 50% shareholding:					
FCF (excluding working capital adjustment)	$'m	87.9	91.4	365.8	514.8
Entitlement production	mboe	2.6	2.7	10.8	12.4
FCF/boe	$/ mboe	33.8	33.9	33.9	41.5

(1) Debt service costs comprise interest costs and repayments and drawdowns of third-party borrowings

(2) The receipt of the deposit has been excluded from the calculation of free cash flow as any imbalance payments under the terms of any future agreement among the Agbami parties will be set-off against this security deposit. See Securitization Agreement on page 12 for further details of this security deposit.

BUSINESS UPDATE - CONTINUED

FCF has remained similar in Q4 2021 compared with Q4 2020. FCF has decreased in 2021 compared with 2020, primarily as tax payments have increased by $329.7 million.

FCF/boe is a non-GAAP ratio which represents FCF on a per barrel of oil equivalent basis using entitlement production which allows the Company to better analyze performance against prior periods on a comparable basis. Net entitlement production is calculated using the economic interest methodology and includes cost recovery oil, tax oil and profit oil and is different from WI production that is calculated based on project volumes multiplied by Prime's effective WI in each license. The slight decrease in FCF in Q4 2021 from Q4 2020 has resulted in a reduction in FCF/boe by $0.1/boe. In 2021, the decrease in FCF from 2020, has resulted in a reduction of $7.6/boe.

Capital expenditure

The increase in capital expenditures in Q4 2021 and the full year 2021, are due to drilling activities on Akpo field which were completed in October 2021.

Dividends paid

In 2021, Prime distributed four dividend payments totaling $400.0 million with a net payment to the Company of $200.0 million. In the period from acquisition to December 31, 2020, Prime distributed six dividend payments totaling $400.0 million with a net payment to the Company of $200.0 million. In the period from completion of the Prime acquisition to the date of this MD&A, Prime has distributed ten dividend payments totaling $800.0 million gross with a net payment to the Company of $400.0 million related to its 50% interest, repaying 77% of the acquisition cost in two years.

Cash and Borrowing and Net Debt to EBITDAX

At December 31, 2021 Prime had a gross cash balance of $517.9 million and debt of $1,016.8 million. Net to AOC's 50% shareholding, Prime has $258.9 million of cash and debt of $508.4 million (as at December 31, 2020 - $115.7 million of cash and debt of $651.4 million). The increase in cash and cash equivalents is primarily due to the receipt of the $305.0 million Security Deposit (gross to Prime, $152.5m net to AOC) from Equinor on June 29, 2021 discussed below.

The debt outstanding has decreased following gross repayments on the RBL Facility of $436.0 million offset by the $150.0 million drawdown of the $300.0 million PXF Facility. Net to AOC's 50% shareholding, the overall debt has reduced by $143.0 million during the year 2021.

At December 31, 2021, Prime has a net debt of $498.9 million (as at December 31, 2020 - net debt of $1,071.4 million) and a Net Debt/EBITDAX of 0.4x (as at December 31, 2020 – 0.9x), mainly due to a higher cash position and higher EBITDAX, partially offset by higher gross debt. The strength of this ratio demonstrates the low leverage within Prime compared with industry peers. This strong Net Debt/EBITDAX ratio, combined with the full repayment of the Company's Corporate Facility in the year means the Company and Prime are well placed to raise more debt in future if required. Net Debt/EBITDAX is a non-GAAP measure and a reconciliation is performed on page 13.

Hedges

Prime use fixed price forward sales contracts to hedge commodity price risk in order to ensure stability in cash flows and to manage volatility in oil prices. Prime's hedging policy is to hedge between 50% and 70% of its forecast cargoes for a rolling 12 months.

The average cargo lifted is for 1 million barrels of oil. Prime forward sold its first 10 cargos in 2022 at average Dated Brent price of $73.1/bbl. The actual price will include a quality and shipping cost adjustment which means the realized price will be different to the hedged prices.

At the date of this MD&A, Prime has lifted 3 cargoes with an average realized price of $66.0/bbl and is expected to lift another two cargoes by end of Q1 2022 at average Dated Brent price of $70.1/bbl.

The cargoes that are allocated for lifting to Prime, account for Prime's cost oil and profit oil shares and exclude its tax oil and royalty barrels, which are sold by the operator on behalf of Prime in order to settle Prime's tax and royalty obligations. The timing and number of cargo liftings can vary based on a number of factors including reservoir performance, actual realized oil price, capex, opex, underlift/overlift positions and marine logistics. The revenue numbers reported for Prime include cost oil, profit oil, tax oil and royalty contributions.

Agbami Securitization Agreement

On June 25, 2021, Prime signed a Securitization Agreement with Equinor and Chevron, whereby Equinor agreed to pay a security deposit to the two other partners to secure future payments due under that Securitization Agreement, pending a comprehensive resolution being reached among all unit parties in respect of the tract participation in the Agbami field. In accordance with the Securitization Agreement, on June 29, 2021, Prime received from Equinor its portion of the security deposit in the form of a cash payment of $305.0 million. A provision for the full cash payment has been recorded within Prime's accounts to reflect the mechanism pursuant to which any such imbalance payments due from Equinor to Prime under the terms of any future agreement among the Agbami parties will be set off against this security deposit. The parties will continue ongoing discussions in an attempt to seek final resolution of the formal redetermination of the Agbami tract participation.

Petroleum Industry Act

On August 16, 2021, the Nigerian President signed the Petroleum Industry Bill into law as the PIA, 2021. The PIA will change the terms that are applied to Prime's licenses on renewal, or on voluntary conversion and renewal. A number of amendments to fiscal terms have been made and analysis is ongoing but are expected to be positive overall to Prime when the licenses are renewed.

BUSINESS UPDATE - CONTINUED

Other non-GAAP measures related to Prime

This MD&A includes non-GAAP measures, non-GAAP ratios and supplementary financial measures as further described herein. These non-GAAP figures do not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable with the calculation of similar measures by other companies. The Company believes that the presentation of these non-GAAP figures provides useful information to investors and shareholders as the measures provide increased transparency and the ability to better analyze performance against prior periods on a comparable basis.

Reconciliation of Prime's EBITDAX and Net Debt/EBITDAX

EBITDAX (non-GAAP measure): This is used as a performance measure to understand the financial performance from Prime's business operations without including the effects of the capital structure, tax rates, DD&A, impairment and exploration expenses. A reconciliation from total profit (a GAAP measure) to EBITDAX (a non-GAAP measure) is shown below.

Net Debt (non-GAAP measure): Net debt is calculated as loans and borrowings less cash and cash equivalents.

Net Debt/EBITDAX (non-GAAP ratio): Net debt divided by EBITDAX and is a measure of the leverage.

	Three months ended		Year Ended	
$'m	**December 31, 2021**	**December 31, 2020**	**December 31, 2021**	**December 31, 2020**
Per Prime's financial statements				
Total profit	119.5	118.4	441.6	443.6
Add back:				
Tax	114.8	8.0	460.0	(5.7)
Finance costs	16.8	23.4	100.4	76.1
Finance income	(0.3)	(0.1)	(0.4)	(12.4)
DD&A and Impairment	74.6	107.9	303.4	737.3
Exploration expenses	1.3	1.2	3.9	4.4
EBITDAX	326.7	258.8	1,308.9	1,243.3
Loans and borrowings	(1,016.8)	(1,302.8)	(1,016.8)	(1,302.8)
Cash and cash equivalents	517.9	231.4	517.9	231.4
Net debt	(498.9)	(1,071.4)	(498.9)	(1,071.4)
Net debt/ EBITDAX	-	-	0.4	0.9
Net to AOC's 50% shareholding:				
EBITDAX	163.4	129.4	654.5	621.7
Net debt/ EBITDAX	-	-	0.4	0.9

THE SOUTH LOKICHAR DEVELOPMENT PROJECT (BLOCKS 10BB AND 13T)

The Company has a 25% WI in Blocks 10BB and 13T (before Government's back-in rights) with Tullow Oil plc (50% and Operator) and TotalEnergies (25%) holding the remaining interests.

In December 2021, as per the license extension obligations provided by the GoK in September 2020, the Project Oil Kenya JV Partners submitted a Field Development Plan for the 10BB and 13T licenses, including the additional E&A opportunities within the 10BB and 13T licenses. The revised development plan is expected to result in a more economically beneficial and sustainable development plan. The submission of the Field Development Plan (FDP) is followed by a period of review by the Government of Kenya, during which time the licenses remain in good standing. In 2021, the Company incurred $3.3 million of capital expenditure directly associated with Blocks 10BB and 13T (2020 - $16.7 million).

The Company and its JV Partners are actively seeking strategic partners for the project. It is intended that a strategic partner will be secured ahead of the FID.

EXPLORATION BLOCK 10BA – KENYA

The Company has a 25% WI in Block 10BA (subject to the Government's back-in rights) with Tullow Oil plc (50% and Operator) and TotalEnergies (25%) holding the remaining interests.

The license has been extended to April 26, 2022, allowing time for the joint venture to include and align the Block 10BA work program with the proposed FDP for Blocks 10BB and 13T, which was submitted in December 2021. The work commitments remain unchanged and include an exploratory well. No letters of credit or guarantees have been provided by the JV. The license has a carrying value of nil at December 31, 2021.

BLOCK 3B/4B – SOUTH AFRICA

The Company farmed in to Block 3B/4B, offshore South Africa, in July 2019. The Company holds a 20% participating interest and operatorship.

The 2D and 3D seismic data previously acquired in the Block is being evaluated by the JV partners and will form the basis for the initial period work program along with other regional and technical studies. The joint venture is reprocessing 3D seismic data in the areas of interest.

Block 3B/4B is currently in the initial period, having a term of three years which will expire on March 26, 2022, which the Company expects to renew. The work commitments during this Initial Period for Block 3B/4B consist of regional subsurface evaluation and mapping, petrophysical analysis of nearby wells, basin modelling, prospect maturation and prospect ranking, leading to recommendations on future investments.

EQUITY INVESTMENTS IN ASSOCIATES

The Company holds equity investments in three oil and gas companies, which provides exposure to several high-impact exploration drilling prospects in South Africa, Namibia, and Guyana.

The Company held the following equity investments in associates as of December 31, 2021:

	Africa Energy	Eco	Impact [(1)]
Issued and Outstanding	1,398,603,039	199,893,636	827,862,299
Shares held by AOC at January 1, 2021	276,982,414	33,952,850	255,629,487
Shares acquired in the period	-	5,945,913	-
Shares held by AOC at December 31, 2021	276,982,414	39,898,763	255,629,487
AOC's holding (%) – December 31, 2021	19.80%	19.96%	30.88%
AOC's holding (%) – December 31, 2020	19.90%	18.40%	30.90%
Share price on December 31, 2021	CAD $0.25	CAD $0.35	-
Exchange rate to USD on December 31, 2021	0.78	0.78	-

(1) Impact is a privately held UK company and no share price is available.

Africa Energy

Africa Energy is an international oil and gas exploration company that holds a 27.5% participating interest in the offshore Exploration Right for Block 2B in South Africa, an effective 10% participating interest in offshore PEL 37, and an effective 10% participating interest in the Exploration Right for Block 11B/12B offshore South Africa. The Company's ownership interest is approximately 19.8% at December 31, 2021.

The Block 11B/12B joint venture is proceeding with development studies and engaging with authorities on gas commercialization due to the success of the Brulpadda and Luiperd gas condensate discoveries. The development of Block 11B/12B will have positive implications for the South African economy and will be critical in facilitating the country's energy transition away from coal with a domestic natural gas supply.

Africa Energy held a 90% participating interest in Block 2B. On April 20, 2021, Africa Energy closed a farmout transaction with Azinam to transfer operatorship and an aggregate 62.5% participating interest in the Exploration Right for Block 2B in consideration for a carry through the next exploration well, Gazania-1, which has been delayed until 2022. Africa Energy retains a 27.5% participating interest in Block 2B.

BUSINESS UPDATE - CONTINUED

Eco

Eco holds WI in four exploration blocks offshore Namibia and one exploration block offshore Guyana. The Company's ownership interest is approximately 19.9% at December 31, 2021.

Eco and its partners are currently studying the feasibility of monetizing two heavy oil discoveries in the Orinduik block offshore Guyana and are reprocessing 3D seismic data to help high grade deeper prospects in the block that could have a higher chance of encountering lighter oil.

On June 28, 2021, Eco acquired a 10% interest in JHI providing Eco with immediate exposure to an active drilling program in the Canje Block offshore Guyana. On the same date, Eco completed a private placement to raise approximately CAD $6.1 million from two partners including the Company and this was subsequently approved by the TSX Venture Exchange on July 9, 2021. The Company has subscribed for 5,945,913 new common shares at a price of CAD$0.41 per new common share totaling $2.0 million and was granted the same number of warrants to acquire common shares at the same price over a two-year period. This increased the Company's interest in Eco from 18.4% to 19.9%. Eco, via JHI, drilled two wells in the second half of 2021 but they did not show evidence of commercial hydrocarbons.

On January 19, 2022, Eco purchased an additional 800,000 shares in JHI in return for 1,200,000 new common shares in Eco, increasing its shareholding in JHI to 5,800,00 shares, representing approximately 7.35% of the issued common shares in JHI. Eco also retained a warrant to subscribe for a further 9,155,471 new common shares in JHI at an exercise price of $2.0 per share for a period of eighteen months. Post year-end this will reduce the Company's share in Eco from 19.9% to 19.7%.

On February 8, 2022, Eco signed a Sales and Purchase Agreement to acquire 100% of AGL, in return for a 16.6% equity stake in Eco on completion of the acquisition. Eco will issue 40,170,474 shares to Azinam reducing the Company's share in Eco from 19.7% to approximately 16.4%. Key assets acquired are a 50% WI and Operatorship in Block 2B, where Africa Energy and Panoro Energy ASA are partners, and a 20% WI in 3B/4B Block where the Company is the Operator and 20% WI partner.

Impact

Impact is a private UK oil and gas exploration company with assets located offshore Namibia, South Africa and West Africa. The Company's ownership interest is approximately 30.9% at December 31, 2021.

Impact has an indirect interest in Block 11B/12B, South Africa. In 2020 Africa Energy and Impact consolidated their indirect interest in the Block 11B/12B exploration right. Following completion, Impact holds 36.5% of the Common Shares in Africa Energy.

On December 1, 2021, the Venus-1 Explration well was drilled to a total depth of 6,296 meters by the operator TotalEnergies. It encountered a high-quality, light oil-bearing sandstone reservoir of Lower Cretaceous age, with 86 meters of net oil pay. The Company has an indirect effective interest of approximately 6.2% to this block through its shareholding in Impact.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Company is committed to being a full-cycle E&P company that integrates sustainability considerations throughout its decision-making and operational management. As a non-operating investor in exploration and production assets, the Company is focused on the effective identification and management of risk. The Company selects its operating partners in part on their ability and commitment to manage ESG risks effectively. The Company monitors operator performance and works with operators where possible and necessary to improve performance. The Company's role as the custodians of its shareholders' capital is to ensure robust governance systems are in place to deliver our sustainability goals.

The Company presented its vision, sustainability goals and select ESG performance information in its inaugural ESG Review published in March 2021. The Company has since continued its ESG reporting and assurance activities in accordance with its ESG Policies and Standards of Operation. In Q3 2021, the Company hired a Vice President of ESG to manage and continue to develop the Company's ESG strategy and performance.

Towards those ends, the Company is working with its operating partners to define and agree appropriate ESG monitoring and reporting frameworks, with a view to increasing both the breadth and depth of reported metrics. In addition to enabling performance monitoring and improvement, these expansions will support enhanced reporting, aligned with guidelines issued by the Sustainability Accounting Standards Board ("SASB"), Global Reporting Initiative and Taskforce for Climate-related Financial Disclosures ("TCFD"). The 2021 Sustainability Report, released February 28, 2022, builds upon the inaugural report and reflects the early results of this work, including a more comprehensive set of ESG performance metrics and an expanded TCFD section. Notably, the TCFD section contains an assessment of the resilience of the Company's portfolio under two potential low-carbon scenarios. Though the Company is currently voluntarily disclosing according to TCFD guidelines, the Canadian Securities Administrators (CSA) have issued a proposed rule that would make TCFD aligned climate risk disclosures mandatory for Canadian listed companies as early as year-end 2022.

The Company has enhanced its reporting of climate-related risks in response to and anticipation of shareholder and broader stakeholder focus on issues related to climate change risk and greenhouse gas emissions. In 2021, the Company set a target to achieve carbon neutrality by 2025. The Company is working to develop a comprehensive Energy Transition Strategy to meet this goal. This strategy, to be finalized over 2022, will set out the steps the Company will undertake over the short, medium and long-term to minimize Scope 1 and Scope 2 operational emissions. Any emissions that cannot otherwise be mitigated will then be offset. The Company has already started work to identify and progress high-quality emissions offset projects that also deliver social and environmental benefits within its areas of operation and influence. The preference is to invest directly in nature-based carbon removal projects to develop a dedicated source of emissions offsets, where the Company has full transparency into and control over the project quality. In H2 2021, the Company engaged a project developer to assess potential project sites in Kenya and identified one location prospective for soil carbon sequestration using a proven methodology for rangeland management. Feasibility and detailed technical studies are ongoing, and the Company intends to provide an update later in 2022. Depending on scale and success, the Company may also choose to purchase offsets over the counter. In 2021, we screened numerous existing projects offering credits on the voluntary market

BUSINESS UPDATE - CONTINUED

and invested in one, a Kenyan-based clean cookstove project certified to the Gold Standard. Through 2021, the Company purchased 30,088 offsets, equivalent to 23% of current year Scope 1 and 2 emissions, from this project at a cost of $0.3 million.

In Nigeria, the Company has continued to work with Prime to develop appropriate and timely ESG performance monitoring and reporting procedures, Standards of Operation and an ESG strategy aligned with the Company's ESG strategic goals. Prime is providing ESG performance data to the Company on a quarterly basis and full-year data is presented in the 2021 Sustainability Report, available on the Company's website. In addition to providing transparency to the Company's stakeholders, this data will enable better engagement with the operating partners around performance and opportunities for improvement.

In Kenya, the Company has continued working with its joint venture partners on Block 10BB and Block 13T to develop an updated Field Development Plan, which was submitted to the Government of Kenya in December 2021. The project design has been revised to minimize production-related greenhouse gas emissions, a key focus and objective for the Company. In support of this, the ESIA has been updated to reflect the revised project configuration. The ESIA was submitted for regulatory approval, and publicly disclosed, in September 2021. The Company has also worked with the project partners to revise the route for the pipeline intended to supply water for operations from the Turkwel Dam to further minimize ecosystem disturbance and cost. A revised ESIA for the pipeline is currently under development for submission to the Government in Q1 2022. Finally, the project partners have been working to close out activities and remediate areas associated with exploration and appraisal activities and the Early Oil Pilot Scheme. In order to promote confidence in the operations and demonstrate transparency and accountability, the Company and its joint venture partners organized multiple opportunities for engagement with the government and local community to inform the stakeholders about the ongoing and planned project activities and provide opportunity for questions and feedback.

In order to comply with requirements imposed by IFC, one of the Company's major shareholders, independent monitoring reviews are conducted on a regular basis to assess compliance with IFC Performance Standards. The most recent review of Company performance, including a review of the ESIA for the Upstream project in Kenya, was undertaken in Q3 2021 with no material adverse findings reported.

SELECTED ANNUAL INFORMATION

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

For the years ended	December 31, 2021	December 31, 2020	December 31, 2019
Statement of Net Income/ (Loss) and Comprehensive Income/ (Loss):			
Net Income/ (Loss) attributable to common shareholders	190,722	(17,614)	(156,769)
Data per Common Share:			
Basic earnings/ (loss) per share ($/share)	0.40	(0.04)	(0.33)
Diluted loss earnings/ (loss) per share ($/share)	0.40	(0.04)	(0.33)
Balance Sheet:			
Working capital	51,923	29,090	290,749
Total assets	991,618	910,499	812,305
Long-term liabilities	35,940	143,443	2,620

In 2021, the Company achieved a record net income attributable to common shareholders of $190.7 million. This compared with a net loss of $17.6 million in 2020, due the profits from Prime and investments in associates being offset by the recognition of a $215.6 million impairment of intangible exploration assets relating to Project Oil Kenya and Block 10BA in 2020. The net income in 2021 is primarily made up of income from the Company's investment in Prime of $224.4 million. In 2020, the net loss attributable to common shareholders decreased by $139.2 million compared to 2019, due to the recognition of profit from the Company's investments in Prime and associates of $240.4 million, which was offset by the recognition of a $215.6 million impairment of intangible exploration assets relating to Project Oil Kenya and Block 10BA. In 2019, an impairment charge of $139.5 million was recognized, relating to Project Oil Kenya.

In 2021, the basic earnings and diluted earnings per share was $0.40 (2020 – basic loss and diluted loss per share of $0.04). The value went from a loss to earnings as there was a net loss attributable to common shareholders of $17.6 million in 2020, and there was a net income attributable to common shareholders of $190.7 million in 2021. In 2019, the basic loss and diluted loss per share was $0.33. This was higher than the basic loss and diluted loss per share of $0.04 in 2020, as the net loss attributable to common shareholders of $156.8 million in 2019, was higher.

In 2021, an increase in working capital was driven by an increase in the cash balance and an increase to total assets was driven by the increase in cash and an increase in the value of the Company's investment in Prime. In 2021, cash increased as the Corporate Facility was repaid in full on November 30, 2021, and residual dividends received from the Company's investment in Prime resulted in an increase in cash on hand. In 2020, a decrease in working capital was driven by cash decreasing from the cash component of the acquisition of 50% of Prime in January 2020 of $269.5 million.

In 2021, long-term liabilities decreased due to the full repayment of the Term Loan and Corporate Facility. In 2020, long-term liabilities increased due to the drawdown of the Term Loan used to fund the acquisition of Prime.

SUMMARY OF QUARTERLY INFORMATION

Summarized quarterly results for the past eight quarters are as follows:

For the three months ended	31-Dec 2021	30-Sep 2021	30-Jun 2021	31-Mar 2021	31-Dec 2020	30-Sep 2020	30-Jun 2020	31-Mar 2020
Share of profit from equity investments in joint ventures and associates ($)	61,843	69,748	47,359	47,929	91,234	31,755	30,318	87,055
Net income/(loss) attributable to common shareholders ($)	54,912	58,506	38,384	38,920	79,845	21,189	19,234	(137,882)
Weighted average shares - Basic	474,192	473,505	473,253	472,147	471,954	471,950	471,950	471,311
Weighted average shares - Diluted	479,611	477,799	476,398	475,011	475,144	475,150	475,150	471,311
Basic income/(loss) per share ($)	0.12	0.12	0.08	0.08	0.17	0.04	0.04	(0.29)
Diluted income/(loss) per share ($)	0.12	0.12	0.08	0.08	0.17	0.04	0.04	(0.29)

With the acquisition of Prime completed on January 14, 2020, the last eight quarters have included the Company's 50% share of Prime's results in income/(loss) from equity investments.

The share of profit from equity investments in joint ventures and associates in Q4 2020 contains a gain on dilution of the equity investment in Africa Energy of $19.9 million and a share of income from the investment in Impact of $11.9 million.

The Company recognized an impairment in March 31, 2020, relating to its Kenyan intangible exploration and evaluation assets, which contributed to the net loss in that quarter.

SUMMARY OF KEY ITEMS OF FINANCIAL PERFORMANCE IN THE YEARS ENDED DECEMBER 31, 2021, AND DECEMBER 31, 2020

	Three months ended		Years ended	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Total operating income	61,843	91,234	226,879	240,362
Salaries and benefits	(2,811)	(2,203)	(6,279)	(5,667)
Share-based compensation	(1,430)	(1,798)	(6,318)	(2,969)
Office and general	(781)	(1,082)	(5,428)	(5,493)
Impairment of intangible exploration assets	-	-	-	(215,600)
Net operating income	56,821	86,151	208,854	10,633
Finance expense	1,967	6,322	18,276	29,349

Total and net operating income

In Q4 2021, the Company recognized net operating income amounting to $56.8 million (Q4 2020 - $86.2 million) and in the year 2021, the net operating income was $208.9 million (year 2020 - $10.6 million).

In Q4 2021, included in the Company's share of profit from equity investments is profit from its 50% investment in Prime of $56.1 million (Q4 2020 - $59.2 million) and in the year 2021, the share of profit was $224.4 million (year 2020 - $209.0 million). The share of profit from the Company's investment in Prime is lower in Q4 2021 primarily as the tax expense has increased which offsets an increase to the operating profit in Q4 2021.

In 2021, Prime recognized a gross profit of $678.3 million (2020 - $722.7 million). The gross profit has decreased due to a lower realized sales price and a smaller number of liftings in 2021. In 2021 Prime recognized a higher tax expense than in 2020, and furthermore, the share of profit in 2020 included an impairment charge recognized in the Egina field. This resulted in Prime recognizing a total profit in 2021 of $441.6 million (2020 - $443.6 million). The share of profit from the Company's investment in Prime has increased in 2021 as the Company has included a full year of net income compared to a prorated net income included in 2020 as the Company acquired its interest in Prime on January 14, 2020.

SUMMARY OF QUARTERLY INFORMATION - CONTINUED

Salaries and benefits

In Q4 2021, salaries and benefits are slightly higher compared to Q4 2020, due to new hires in the second half of 2021 and lower time writing charges. In 2021, salaries and benefits were higher when comparing 2020, due to the increased head count in the second half of 2021, and lower time writing charges.

Share based compensation

The share-based compensation charge relates to the LTIP and Stock Option Plan. In Q4 2021, the lower charge compared with Q4 2020, is due to the relative share price movement in Q4 2021 compared with Q4 2020 which affects the PSU and RSU valuation. In 2021, the higher charge compared to 2020, is due to the share price increasing significantly in 2021, compared with 2020, which affects the PSU and RSU valuation.

Office and general

In Q4 2021, the operating costs relating to corporate overheads were lower by $0.3 million than in Q4 2020, and in the year 2021, the operating costs relating to corporate overheads were lower by $0.4 million than in the year 2020, primarily due to lower rental costs for the Company's offices. This was offset by $0.3 million spent on 30,088 tonnes of carbon offsets purchased.

Finance expense

In Q4 2021, the Company recognized a finance expense of $2.0 million (Q4 2020 - $6.3 million). In 2021, the finance expense was $18.3 million (2020 - $29.3 million).

In 2021, the interest expense has reduced by $15.7 million compared to 2020. This is as a result of the lower interest rate on the Corporate Facility compared to the Term Loan (LIBOR+6.5% compared with 15% respectively). The total debt was also on average lower in 2021, with the balance at January 1, 2021, being $141.0 million and the balance at December 31, 2021 being $nil compared to the Term Loan of $250.0 million drawn on January 14, 2020 and the balance of the Term Loan at December 31, 2020 being $141.0 million.

In Q4 2021, the interest expense has reduced by $6.1 million compared to Q4 2020 due to the lower average loan balance outstanding in the period, and lower interest margin.

Fees associated with the signing of the Corporate Facility totaling $1.7 million were expensed in Q4 2021, and there were no similar fees incurred in Q4 2020. Fees associated with the signing of the Corporate Facility totaling $4.6 million were expensed in 2021, and there were no similar fees incurred in 2020.

SUMMARY OF KEY ITEMS OF FINANCIAL POSITION AS AT DECEMBER 31, 2021, AND DECEMBER 31, 2020

As at	December 31, 2021	December 31, 2020
Assets		
Equity investment in joint venture	617,127	561,302
Equity investments in associates	120,688	116,212
Intangible exploration assets	194,051	190,396
Cash	58,885	40,474
Liabilities		
Long-term debt	-	141,000

Equity investment in joint venture

As at December 31, 2021, the Company's investment in Prime was $617.1 million compared to $561.3 million as at December 30, 2020. The increase in the investment is primarily due to the share of profit from the investment in the joint venture of $224.4 million offset by dividends received of $200.0 million in 2021, and the revaluation of contingent consideration described in further detail on page 23.

Equity investments in associates

As at December 31, 2021, the Company's investment in associates was $120.7 million compared to an investment value of $116.2 million as at December 31, 2020. The increase in the investment is primarily because of the share of the income from investments in associates of $2.5 million in 2021 and an additional investment of $2.0 million in Eco described in further detail on page 15. The income in 2021 was mainly contributed by Africa Energy, driven by a gain on the revaluation of their Investment in Block 11B/12B, due to the recent increase in gas prices and forward oil prices.

Intangible exploration assets

The Company's intangible exploration assets relate to its interests in Block 10BB and 13T in Kenya, and Block 3B/4B in South Africa.

Kenya

In Q4 2021, the expenditure on projects in Kenya was $1.1 million (Q4 2020 - $1.6 million) and in the year 2021, the expenditure was $3.3 million (year 2020 - $16.9 million). In December 2021, the Company and its JV Partners have submitted a FDP to the GoK in accordance with the terms of the license extension.

Due to a reduction in oil price, and the global pandemic in the first quarter of 2020, the Company determined that an impairment test was required for the Project Oil Kenya CGU (Block 10BB and 13T) as at March 31, 2020. The Company used fair value less costs of disposal to determine the recoverable amount of Block 10BB and 13T. The results of the impairment test indicated that the carrying value of Block 10BB and 13T exceeded the recoverable amount and the Company recognized an impairment loss of $137.8 million. The Company used a market consensus Brent forward curve at March 31, 2020. The post-tax discount rate increased to 17 percent, reflecting current market challenges and risks. As at December 31, 2020, the Company did not note any further indicators of impairment.

In 2021, there have been no indicators of impairment identified relating to the Company's intangible exploration assets. At December 31, 2021, the Company determined that due to an increase in the oil price and a reduction of the impact from the global pandemic to the wider global market since 2020, that it was deemed appropriate to consider if there had been a reversal of the impairment recognized in 2020. An impairment reversal test was conducted. The key assumptions included in the test were the quantity of contingent resources, future commodity prices, production forecasts, operating expenses, development costs, the timing of FID and the discount rate. A market-based oil price forecast was used which contained a forward curve plus a long-term real oil price of $67.0/bbl and a discount rate of 18% was used in the test. No impairment reversal was identified.

The future development of the Company's other Kenyan block, 10BA, would likely rely on infrastructure of Blocks 10BB and 13T. The impairment in Block 10BB and 13T as at March 31, 2020, was an indicator that Block 10BA may be impaired. The block has considerable exploration potential however the work program was minimal for 2020, and partner support was affected by the global pandemic in the first quarter. 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. The carrying value of 10BA is zero.

South Africa

On February 7, 2020, a wholly owned subsidiary of the Company acquired a 20% participating interest in the Block 3B/4B Exploration Right from Azinam for a consideration of approximately $3.6 million. In Q4 2021, the Company incurred $0.1 million on Block 3B/4B reevaluating 2D and 3D seismic data previously acquired (Q4 2020 - $0.2 million) and in the year 2021, the Company incurred $0.4 million (year 2020 - $4.1 million).

Cash

As at December 31, 2021, the Company had cash of $58.9 million compared to cash of $40.5 million as at December 31, 2020. The increase to cash is primarily due to the repayment of the Corporate Facility in 2021, with subsequent dividends received from Prime being been held as cash on hand.

Long-term debt

As at December 31, 2021, the Company had no long-term debt compared to a balance outstanding under the Term Loan of $141.0 million as at December 31, 2020. After repayments from Prime dividends received in 2021, the Term Loan balance prior to final repayment was $98.0 million which was settled by the Corporate Facility, which was arranged by the Company for general corporate purposes, and to repay the Term Loan. The Corporate Facility was repaid in full in November 2021 from dividends received from Prime.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2021, the Company had cash of $58.9 million and working capital of $51.9 million. As at December 31, 2020, the Company had a cash position of $40.5 million and working capital of $29.3 million.

The Company's primary source of liquidity, is dividends received from Prime. In 2021, Prime distributed four dividend payments totaling $400.0 million with a net dividend to the Company of $200.0 million related to its 50% interest. In 2020, Prime distributed six dividend payments totaling of $400.0 million to its shareholders, with a net dividend to the Company of $200.0 million.

Term Loan

As at December 31, 2020, the balance outstanding under the Term Loan was $141.0 million. After repayments from Prime dividends received in 2021, the Term Loan balance prior to final repayment was $98.0 million. This was repaid on July 30, 2021, with the proceeds of the Corporate Facility, described below.

Corporate Facility

On May 13, 2021, the Company agreed a new Corporate Facility for an amount up to $150.0 million with a three-year term, with $130.0 million committed at that time. Post signing, the facility amount and commitments were increased to $160.0 million. Completion occurred on July 16, 2021. On July 30, 2021, $98.0 million was drawn down under the Corporate Facility in order to repay the Term Loan in full. The Facility is also available for general corporate purposes.

The loan repayments are calculated to be protective of the Company's liquidity position and repayments under the loan, if drawn, are made in the month a dividend is received from Prime. The loan principal would be repaid by up to 100% of the dividends received from Prime, or of an amount that ensures the Company hold a minimum projected consolidated cash balance in the six months following the repayment.

The Corporate Facility carries interests of 1 month-Libor plus a margin of 6.5% in the first year, 7.0% in the second year and 7.5% in the third year. If the Company makes a prepayment of the facility prior to May 12, 2022 (unless the repayment is made from a dividend received from Prime), a make whole premium equal to the amount of interests remaining due until May 12, 2022, on the amount prepaid is payable at LIBOR+6.5%. The Corporate Facility is subject to financial and liquidity covenants.

The Company has provided security in respect of the Corporate Facility mainly in the form of a pledge over the shares of Petrovida (which holds 50% of Prime) and a charge over the bank account into which the Prime dividends are paid.

In September and November 2021, Prime distributed two dividends totaling $250.0 million with a net payment to the Company of $125.0 million related to its 50% shareholding. The Company applied the dividends to repay the outstanding balance of its Corporate Facility in full. As of December 31, 2021, the outstanding amount under the Corporate Facility was nil and $62.0 million was available for drawing until May 12, 2022, subject to the satisfaction of certain covenants.

On January 28, 2022, the Company agreed a number of amendments to the Corporate Facility with the existing lenders. The available amount has increased to $100.0 million from $62.0 million, and the availability period has been extended to December 31, 2022, from May 13, 2022. The principal amounts drawn may not exceed $80.0 million by June 30, 2023, and $50.0 million by February 29, 2024. The maturity date of May 13, 2024, and interest margins are unchanged. The lenders have also waived certain conditions in support of the Company's plans to implement a shareholder returns program, and released their security over the Company's shares in Africa Energy Corp., Eco (Atlantic) Oil & Gas Ltd. And Impact Oil and Gas Limited.

The Company has no off-balance sheet arrangements.

Future Funding Outlook

Regarding the South Lokichar Basin development, the Company will continue to minimize capital investment until a field development plan and strategic partner is approved. The Company's current working capital position may not provide it with sufficient capital resources to complete development activities being considered in the South Lokichar Basin (Kenya) or to settle its ongoing tax disputes with the KRA.

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

The Company believes that its existing cash balances combined with anticipated funds flow from Prime dividends will provide sufficient liquidity for the Company to meet its financing, operating and capex commitments as they fall due.

OUTSTANDING SHARE DATA

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

Common shares outstanding	474,831,355
Outstanding share purchase options	6,701,949
Outstanding performance share units	7,795,512
Outstanding restricted share units	2,668,335
Full dilution impact on common shares outstanding	491,997,152

RELATED PARTY TRANSACTIONS

Transactions with 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. Africa Energy completed an additional private placement on September 30, 2020, in which the Company participated, investing $6.8 million, acquiring 20,000,000 shares of a total of 88,667,000 shares issued. As at December 31, 2021, the Company's ownership interest in Africa Energy is approximately 19.8%.

Services Agreements:

For the years ended	Service provider	Service provided	December 31, 2021	December 31, 2020
General Management and Service Agreement	AOC to Africa Energy	Administrative services provided to Africa Energy.	57	102
Consulting Services Agreement (1)	Africa Energy to AOC	Technical and administrative services relating to project evaluation	-	300
General Technical and Administrative Service Agreement (2)	Africa Energy to AOSAC	Technical and administrative services relating to its operating interest in Block 3B/4B, South Africa.	384	192

(1) Expired June 30, 2020

(2) Contract date July 1, 2020

As at December 31, 2021, and December 31, 2020, Africa Energy owed the Company $nil.

Transactions with Eco

On June 28, 2021, the Company subscribed for 5,945,913 new common shares at a price of CAD$0.41 per new common share totaling $2.0 million and was granted the same number of warrants to acquire common shares at the same price over a two-year period. This increased the Company's interest in Eco from 18.4% to 19.9%.

Transactions with Impact

On February 14, 2020, Impact completed a private placement, in which the Company participated, investing approximately $12.0 million, acquiring 45,000,000 shares, increasing the Company's ownership interest in Impact from approximately 29.9% at December 31, 2019, to approximately 30.9% at December 31, 2020, and December 31, 2021.

Remuneration of Directors and Senior Management

Remuneration of Directors and Senior Management includes all amounts earned and awarded to the Company's Board of Directors and Senior Management. Senior Management includes the Company's President and Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and Vice President of Exploration.

Directors' fees include Board and Committee Chair retainers. Management's short-term wages and benefits include salary, benefits, bonuses and any other cash-based compensation earned or awarded during the year. Share-based compensation includes expenses related to the Company's share purchase option plan as well as the Long-Term Incentive Plan.

For the years ended	December 31, 2021	December 31, 2020
Non-Executive Directors' fees	376	365
Non-Executive Directors' share-based compensation	888	742
Managements' short-term wages and benefits	3,074	2,527
Managements' share-based compensation	3,385	844
	7,723	4,478

COMMITMENTS AND CONTINGENCIES

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

KENYA REVENUE AUTHORITY

The Company's Kenyan Branch of its wholly owned subsidiary, Africa Oil Kenya B.V., has been assessed for CIT and VAT by the KRA relating to farmout transactions completed during the period 2012 to 2017.

The Kenyan TAT has ruled in favor of the Company with regards to the CIT assessments, which amounts to $21.0 million, plus interest and penalties. However, the TAT ruled in favor of the KRA with regards to the VAT assessments which amounts to $24.6 million plus interest. 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 appealed the CIT assessment. The Court is expected to meet in Q1 2022, where the Judge is expected to give his judgement. The Company expects it is more likely than not that it will be successful in upholding the CIT and defending the VAT assessments and therefore no liability has been recognized in the financial statements. If the High Court rules against the Company, the Company will consider the option to appeal, factoring in the amount of any financial security required as part of the appeals process. An unfavorable decision could have a material negative impact on the value of the Company's Kenyan Intangible Exploration Assets.

PRIME OIL AND GAS COÖPERATIEF U.A:

On June 25, 2021, Prime signed a Securitization Agreement with Equinor and Chevron, whereby Equinor agreed to pay a security deposit to the two other partners to secure future payments due under that Securitization Agreement, pending a comprehensive resolution being reached among all unit parties in respect of the tract participation in the Agbami field. In accordance with the Securitization Agreement, on June 29, 2021, Prime received from Equinor its portion of the security deposit in the form of a cash payment of $305.0 million. A provision has been recorded within Prime to reflect the mechanism pursuant to which any such imbalance payments due from Equinor to Prime under the terms of any future agreement among the Agbami parties will be set-off against this security deposit. The parties will continue ongoing discussions in an attempt to seek final resolution of the formal redetermination of the Agbami tract participation.

Under the Prime Sale and Purchase Agreement completed on January 14, 2020, a deferred payment of $118.0 million, subject to adjustment, may be due to the seller contingent upon the timing and ultimate OML 127 tract participation in the Agbami field. The signing of the Securitization Agreement by Prime has led to the Company reassessing its view of the likelihood of making a contingent consideration payment to the seller. The signing of the Securitization Agreement by Prime does not constitute a redetermination of the tract participation, therefore does not trigger the payment of a contingent consideration under the Sale and Purchase Agreement but, at the Company's discretion, could trigger discussions with the seller. The outcome of this process is uncertain. The Company has therefore recorded $32.0 million as contingent consideration as the best estimate of the most likely outcome and increases the Company's investment in Prime.

KENYA LICENSE COMMITMENTS:

Blocks 10BB and 13T are in the second additional exploration periods for both PSCs, which expires on December 31, 2021. In December 2021, as per the license extension obligations provided by the Government of Kenya in September 2020, the Project Oil Kenya JV Partners submitted a Field Development Plan for the 10BB and 13T licenses. This included the additional E&A opportunities within the 10BB and 13T licenses and holds the licenses in good standing while the Government of Kenya reviews the FDP submissions.

Block 10BA PSC is in the second additional exploration period which expires on April 26, 2022. During the second additional exploration period, the Company and its partners are obligated to complete geological and geophysical operations, including 500 kilometers of 2D. 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 second additional exploration period is $19.0 million. The JV partners have not provided any Letters of credit or guarantees for this commitment. The Block 10BA E&A plan was included in the proposed FDP for Blocks 10BB and 13T. At December 31, 2021, the Company's WI in Block 10BA was 25%.

The Company expects the three licenses to be renewed once the GoK has completed its review of the FDP submission.

SOUTH AFRICA LICENSE COMMITMENTS:

Block 3B/4B is currently in the Initial Period, having a term of three years which will expire in March 2022. The Company expects to renew the license before expiry and consider the risk of non-renewal to be low. The work commitments during this Initial Period for Block 3B/4B consist of regional subsurface evaluation and mapping, petrophysical analysis of nearby wells, basin modelling, prospect maturation and prospect ranking, leading to recommendations on future investments. The total minimum gross expenditure obligation for the Initial Period is 11.4 million Rand (approximately $0.7 million), which has been met. At December 31, 2021, the Company's WI in Block 3B/4B was 20%.

CRITICAL ACCOUNTING ESTIMATES

The Company's critical accounting estimates are defined as those estimates that have a significant impact on the portrayal of its financial position and operations and that require management to make judgements, assumptions and estimates in the application of IFRS. Judgements, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgements, assumptions and estimates may be subject to change.

USE OF ESTIMATES

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

The Company' significant accounting policies can be found in the Company's Financial Statements for the year ended December 31, 2021.

INTANGIBLE EXPLORATION ASSETS

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

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

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

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

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

The changing worldwide demand for energy and the global advancement of alternative sources of energy could result in a change in the assumptions used to determine the recoverable amount and could affect estimating the future cash flows which could impact carrying amount of the Company's intangible exploration assets. The timing of when global energy markets transition from carbon-based sources to alternative energy sources is highly uncertain. Environmental considerations are built into our estimates through the use of key assumptions in estimating fair value including future commodity prices and discount rates. The energy transition could impact the future prices of commodities and discount rates used to appraise oil and gas projects. Pricing assumptions used in the determination of recoverable amounts incorporate markets expectations and the evolving worldwide demand for energy.

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.

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

IMPAIRMENT OF JOINT VENTURES AND ASSOCIATES

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

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

CONTINGENT CONSIDERATION

Contingent consideration formed part of the overall consideration for the acquisition of Prime. At the date of acquisition, an estimate of the contingent consideration is determined and included as part of the cost of the acquisition.

Subsequent to acquisition, contingent consideration can be treated using two acceptable methods, the cost-based approach and the fair value-based approach. The Company have determined the cost-based approach to give the best estimate of the value of the contingent consideration. Any revisions to the contingent consideration estimates, after the date of acquisition, are accounted for as changes in estimates in accordance with IAS 8, to be accounted for on a prospective basis. The change in the liability, as a result of the revised cash flows, would be adjusted to the cost of the investment and, in accordance with paragraph 37 of IAS 8, recognized as part of the investment's carrying amount rather than in profit or loss.

The estimates involved in assessing the value of the contingent consideration include the expected timing of payments, the expected settlement value, the likelihood of settlement and the probability of the assessed outcomes occurring. There is significant judgement used in the determination of these estimates.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

DISCLOSURE CONTROLS AND PROCEDURES

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2021, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As at December 31, 2021, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed. Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ADVISORY REGARDING OIL AND GAS INFORMATION

The terms boe (barrel of oil equivalent) and MMboe (millions of barrels of oil equivalent) are used throughout this report. Such terms may be misleading, particularly if used in isolation. The conversion ratio of six thousand cubic feet per barrel (6 Mcf:1 Bbl) of conventional natural gas to barrels of oil equivalent and the conversion ratio of 1 barrel per six thousand cubic feet (1 Bbl:6 Mcf) of barrels of oil to conventional natural gas equivalent is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to conventional natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

In this report, references are made to historical and potential future oil production in Nigeria and Kenya. In all instances these references are to light and medium crude oil category in accordance with NI 51-101 and the COGE Handbook. The reserves estimates presented in this report with respect to the Company's 50% ownership interest in Prime that have been evaluated by RISC (UK) Limited in accordance with NI 51-101 and the COGE Handbook, are effective December 31, 2021. The reserves presented herein have been categorized in accordance with the reserves and resource definitions as set out in the COGE Handbook. The estimates of reserves in this report may not reflect the same confidence level as estimates of reserves for all properties, due to the effects of aggregation.

Reserves are estimated remaining quantities of petroleum anticipated to be recoverable from known accumulations, as of a given date, based on the analysis of drilling, geological, geophysical, and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are further classified according to the level of certainty associated with the estimates and may be sub-classified based on development and production status. Proved Reserves are those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs and under existing economic conditions, operating methods and government regulations. Probable Reserves are those additional quantities of petroleum that are less certain to be recovered than Proved Reserves, but which, together with Proved Reserves, are as likely as not to be recovered. Possible Reserves are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

RISK FACTORS

With Board oversight, the Company proactively manages the identification, assessment and mitigation of risks, many of which are common to operations in the oil and gas industry as a whole, whilst others are unique to the Company. The realization of any of the risks listed below could have a material adverse effect on the Company's business, financial condition, reserves and results of operations, such list being non-exhaustive.

GLOBAL HEALTH EMERGENCY

The on-going COVID-19 pandemic, and the actions that have been taken by governmental authorities in response to it have resulted, and may continue to result in, increased volatility in financial markets and commodity prices, disruption in supply chains, labour shortages, temporary operational restrictions and restrictions on gatherings and travel, as well as quarantine orders and business closures. In particular, the COVID-19 pandemic has resulted and may continue to result in volatility in demand for, and prices of, crude oil.

The Company's business, financial condition and results of operations could be materially and adversely affected by the COVID-19 pandemic, as well as any other epidemic, pandemic or other public health crisis. The degree to which the COVID-19 pandemic impacts our results will depend on future developments, which are 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 and its variants or treat their impact, the efficiency of vaccination campaigns against the virus and all its variants, and how quickly and to what extent the worldwide economic activity can recover to pre-crisis levels.

CLIMATE CHANGE AND ENVIRONMENTAL COMPLIANCE

Litigation Risks

Climate-related litigation is a rapidly evolving and increasingly important issue for our industry. The Company is monitoring developments closely, realizing that the possibility of legal challenges could rise as the costs of climate change mitigation and adaptation increase, and as more climate laws and agreements are put in place. While the majority of cases continue to be brought in developed economies, the number of climate litigation cases in developing countries is growing, with at least 58 cases recorded in developing country jurisdictions in the Southern Hemisphere. These include cases relevant to the oil and gas industry in Guyana and South Africa, as well as before the East African Court of Justice. While these cases do not directly concern the Company's assets and licenses, their outcomes could have indirect implications for the Company's exploration and development activities.

Regulatory Risks

Global commitment to addressing the causes and impacts of anthropogenic climate change have steadily increased since the Paris Agreement was signed in 2015. Efforts have focused on reducing emissions of greenhouse gases, particularly carbon dioxide and methane.

The upstream oil and natural gas industry is a significant producer of greenhouse gases due to the energy intensive nature of its operations; in addition, carbon dioxide and methane are released as a by-product of natural gas production and handling. The oil and gas produced then generates indirect emissions when converted into end-use products, such as gasoline and diesel, and ultimately burned as fuel in combustion engines, generators or turbines.

RISK FACTORS - CONTINUED

As a result, the industry is subject to increasingly stringent regulations regarding energy and emissions management. Climate change policy is quickly evolving at local, national, regional and international levels. In the run-up to the 26th Conference of the Parties (COP26) to the UN Convention on Climate Change, which took place in Glasgow in November 2021, 155 countries submitted updates to their Nationally Determined Contributions to the Paris Agreement. These included four out of the five countries in which the Company owns assets, either directly or indirectly through joint ventures or equity affiliates. COP26 also saw the announcement of a number of multilateral initiatives with implications for the oil and gas industry and the Company. Most notably, more than 100 countries—including Nigeria—committed to reduce global methane emissions 20% by 2030. Additionally, 34 countries and five public finance institutions committed to end direct support for unabated fossil fuels by the end of 2022.

As countries implement laws to meet these commitments, the Company may face new or increased regulations restricting oil and gas activities, limiting emissions from operations or imposing additional costs, including direct costs on emissions. The Company may also find access to select markets or financial capital restricted. These measures could have a material impact on the operations and financial condition of the Company. Political and economic events may significantly affect the scope and timing of the measures that are ultimately put in place. Costs of compliance with existing emissions regulations in the Company's countries of operation have been immaterial to date. Various climate change scenarios suggest these could increase significantly in the medium and long-term, particularly in scenarios consistent with the Paris Agreement objectives to limit global warming to "well below" 2 degrees Celsius this century. Scenario analysis conducted by the Company suggests our assets would remain economic even if carbon costs were to increase to the levels assumed under these scenarios.

Physical Risks

Climate change has already resulted in significant shifts in global weather patterns, including an increase in the number and severity of heat waves, cold spells, droughts and storms, including hurricanes and tropical cyclones. Longer term, climate change may also result in rising sea levels due to melting polar ice caps.

The physical effects of climate change have the potential to directly impact the Company's assets and operations. With the exception of Kenya, the Company's assets are located offshore, where they are subject to disruption and damage from more frequent and severe storms and sea level rises. In Kenya, increased temperatures and changes in precipitation levels could alternately lead to flooding and erosion impacting the future project site, facilities and infrastructure, or shortages of water for operations as a result of drought.

The exact nature, magnitude and timing of physical climate impacts is difficult to predict. The Company will continue to develop its understanding of long-term weather patterns in order to anticipate the need for additional adaptation measures to protect associated infrastructure.

Reputational Risk

Concerns about climate change have resulted in increasing environmental activism aimed at the oil and gas industry. The Company has not been directly targeted by environmental activists. However, the Company could be targeted in the future. Moreover, activism aimed at other companies or the industry more broadly could indirectly impact the Company's assets or license to operate.

In addition to environmental activists, numerous banks and large institutional investors have communicated an intention to divest from select fossil fuels, particularly coal and unconventional oil and gas activities, such as oil sands and shale oil and gas. Conventional oil and gas activities are increasingly coming under similar pressure, and the Company may find access to capital limited, more expensive or made contingent upon environmental performance standards.

Business Model Risks

Changing consumer preferences for low carbon sources of energy, transport and products and services may erode demand for oil and gas as clean alternatives come to market and gain scale. In addition to limiting the Company's ability to sell into the market, these trends could lead to lower commodity prices in the medium and long-term, putting further pressure on revenues. In the short-term, unbalanced investment in traditional vs. new energy technologies and sources, combined with uncertain demand dynamics, may lead to commodity price volatility. Supply chains may also become constrained, as suppliers adjust their strategies and product mix in response to the energy transition, resulting in increasing costs for some goods and services. The Company has conducted scenario analysis that suggests its assets are resilient to the types of changes in oil and gas price levels that might be expected under a low-carbon future.

At the same time, markets for new products and services may present new opportunities for the Company to expand or diversify the Company's lines of business. For instance, the Company is exploring development of an offset project in Kenya of sufficient scale to help reduce both the Company's own emissions as well as potential third-party emissions. Likewise, clean energy technologies, such as renewables, hydrogen and carbon capture and storage (CCS), present opportunities for integration with the Company's operations to lower the Company's own emissions footprint. Specifically, the Field Development Plan for the Company's Kenyan assets includes use of solar power to support administrative loads related to the midstream component, and the Company has explored broader use of renewables to power operations at the facility. Though deemed uneconomic at this time, the Company will continue to consider ways to expand integration of renewable or low carbon technologies to reduce its operational footprint.

See the Company's 2021 Sustainability Report for a thorough discussion of climate-related risks and opportunities in accordance with guidelines issued by the Task Force on Climate-related Financial Disclosures. The Sustainability Report is available on the Company's website.

RISK FACTORS - CONTINUED

Other Environmental Risks

The regulatory frameworks in the Company's countries of operation extend beyond emissions to include broader areas of environmental concern, including water management, waste handling, soil pollution and biodiversity protection. These regulations typically include environmental licensing and permitting subject to the conduct of Environmental and Social Impact Assessments prior to any new development phase, as well as ongoing monitoring and reporting.

Non-compliance with these environmental regulations can result in fines or permits being revoked, both of which could materially impact the Company's financial position or license to operate. Breaches could also lead to civil or criminal litigation, particularly in cases resulting in significant environmental damage.

The Company is committed to minimizing the broader environmental impact of our oil and gas activities. The Company acts in compliance with the applicable environmental laws and regulations of its countries of operation and manages activities according to international industry best practice. This includes taking a rigorous approach to operational planning, including identifying potential environmental or ecological risks and impacts of operations, and obtaining and maintaining all necessary permits and licenses. The Company also consults with stakeholders on environmental issues that may affect them, investigates any environmental incidents, and maintains emergency response procedures for protection of the operating environment.

In particular, the Company strives to minimize water consumption, mitigate impact upon water sources and monitor and safely dispose of waste streams. The Company assesses and puts measures in place to minimize impact on biodiversity and ecosystems in line with the mitigation hierarchy and, where appropriate, undertakes offsetting measures to ensure that activities lead to no net loss of important biodiversity and habitats.

Where the Company does not operate, it monitors and manages environmental risks via regular reports from project partners and operators and participation in quarterly operating and technical committee meetings.

In some cases, damage cannot be avoided, and in those cases, the Company works quickly to contain and mitigate the risk and restore any affected areas.

Though the Company endeavors to engage all relevant stakeholders proactively and early in the planning process, environmental activism is increasing, and in some cases has resulted in delays or disruptions to activities, including delays to permitting where activists have challenged permits in courts. Africa Oil has not to date suffered impacts to operations due to environmental activism. However, such delays could affect project economics by incurring additional costs or delaying forecast production and revenues.

The Company does not currently face any environmental fines or charges and rates the risk of future fines or charges as low. However, accidents can occur; the unexpected nature of these events makes the timing and scope challenging to quantify with respect to financial impacts.

PRICES, MARKETS AND MARKETING OF CRUDE OIL AND NATURAL GAS

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of the Company. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could have an adverse effect on the Company's business and prospects. The Company may be required by Government authorities to limit production due to OPEC+ quotas from time to time.

The Company may partake in hedging activities when efficient to do so, however, that may not fully mitigate the risk of lower oil prices.

The Company or its investee company's ability to market its oil and natural gas may depend upon its ability to acquire space on vessels or pipelines that deliver oil and natural gas to commercial markets. The Company could also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing and storage facilities and operational issues affecting such pipelines and facilities as well as government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

PRIME DIVIDENDS

The Company occasionally receives dividends from Prime related to the Company's 50% shareholding in Prime. However, a significant reduction, infrequent distributions, or no payment of Prime's dividends to the Company could have a material or adverse effect on the Company's business, and financial condition. Such results could occur due to, among other things, the following:

- global health emergencies
- an inability for Prime to hedge the production of future assets
- Prime's off-takers defaulting on forward sale agreements or banks defaulting on hedging agreements
- significant or extended declines in oil and natural gas prices
- decline in the demand for oil and natural gas
- changes to the applicable tax and other laws and regulations in Nigeria
- capital or liquidity constraints experienced by Prime, including restrictions imposed by lenders
- the license renewal not occurring
- accounting delays or adjustments for prior periods
- shortages of, or delays in obtaining skilled personnel or equipment, including drilling rigs
- delays in the sale or delivery of products
- title defects

A significant reduction or no payment of Prime's dividends to the Company could significantly reduce the amount of the Company's anticipated cash flow and could also expose the Company to financial risk.

RISK FACTORS - CONTINUED

LIQUIDITY

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 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 and face potentially unexpected liabilities.

The Company will potentially issue debt or equity, extend its debt maturities and enter into farmout agreements to ensure it has sufficient available funds to meet current and foreseeable financial requirements. Concerns around climate change have resulted in some lenders and investors moving away from financing oil and gas activities, and the Company may find access to capital limited, more expensive or made contingent upon environmental performance standards.

The Company actively monitors its liquidity to ensure that its cash flows and working capital are adequate to support these financial obligations and the Company's capital programs. The Company will also adjust the pace of its activities to manage its liquidity position. Notwithstanding any mitigation efforts, the Company remains exposed to erosion of its balance sheet and revenues and may have difficulty in securing necessary funding, which may lead to insufficient liquidity.

GOVERNMENT REGULATIONS AND TAX

The Company is subject to Applicable Law. The Company may be adversely affected by changes to Applicable Laws to which it is subject and its host Governments may implement new Applicable Laws, modify existing ones, or interpret them in a manner that is detrimental to the Company. Such changes to the Applicable Law to which the Company is subject could, amongst other things, result in an increase in existing tax rates or the imposition of new ones or the Company may be subject to tax assessments, all of which on their own or taken together could have a material adverse effect on the Company's business, financial condition, results of operations and prospects of the Company's oil and gas assets. In Nigeria, the fiscal regime to which Prime is subject has recently been affected by the passing of the Petroleum Industry Act, 2021. The impact on the Company is being assessed.

INVESTMENTS IN ASSOCIATES AND INVESTMENTS IN JOINT VENTURES

The Company has invested in other frontier oil and gas exploration companies that are similar to it, and that face similar risks and uncertainties, which could have a material adverse effect on their businesses, prospects and results of operations. Such risks include, without limitation, equity risk, liquidity risk, commodity price risk, credit risk, currency risk, foreign investment risk, and changes in environmental regulations, economic, political or market conditions, or the regulatory environment in the countries in which they operate. The associates or joint ventures are entities in which the Company has influence but given its equal interest or minority interest, no or limited control over their decisions, including, without limitation, financial and operational policies, and has no or limited control over financial outcomes and performances. The Company's investments are not diversified over different types of investments and industries, rather, they are concentrated in one type of investment. If an associated company or jointly controlled entity in which the Company has invested fails, liquidates, or becomes bankrupt, it could face the potential risk of loss of some, or all, of its investments, and the Company may be unable to recover its initial investment amount, or any amount, from its various investments in other frontier oil and gas exploration companies.

RISKS INHERENT IN OIL AND GAS EXPLORATION, AND DEVELOPMENT, AND PRODUCTION

Oil and gas operations involve many risks, which even a combination of experience, knowledge, and careful evaluation may not be able to overcome. The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that expenditures made on future exploration by the Company will result in discoveries of oil or natural gas in commercial quantities or that commercial quantities of oil and natural gas will be discovered or acquired by the Company. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. Without the continual addition of new reserves, any existing reserves associated with the Company's oil and gas assets at any particular time, and the production therefrom, could decline over time as such existing reserves are exploited. There is a risk that additional commercial quantities of oil and natural gas may not be discovered or acquired by the Company. Production delays and declines from normal field operating conditions cannot be eliminated and may adversely affect revenue and cash flow levels to varying degrees. There is no certainty that any discovered resources will be commercially viable to produce. There is no certainty that any portion of undiscovered resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

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

RISK FACTORS - CONTINUED

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

INTERNATIONAL OPERATIONS

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

DIFFERENT LEGAL SYSTEM AND LITIGATION

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

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

ANTI-BRIBERY AND ANTI-CORRUPTION LAWS

The Company is subject to various anti-bribery and anti-corruption laws, including the Corruption of Foreign Public Officials Act (Canada) and the Bribery Act 2010 (United Kingdom). Failure to comply with such laws could subject the Company to, among other things, reputational damage, civil and criminal penalties, other remedial measures and legal expenses which could adversely affect the Company's business, results in operations, and financial condition. To mitigate this risk, the Company has implemented an anti-corruption compliance and onboarding program for anyone that does business with the Company, anti-corruption training initiatives for its personnel and consultants, and an anti-corruption policy for its personnel, and consultants. However, the Company cannot guarantee that its personnel, contractors, or business partners have not in the past or will not in the future engage in conduct undetected by the onboarding processes and procedures adopted by the Company, and it is possible that the Company, its personnel or contractors, could be subject to investigations or charges related to bribery or corruption as a result of actions of its personnel or contractors.

CREDIT FACILITIES

The Company is party to credit facilities. The terms of the facility contain covenants and restrictions on the ability of the Company to, among other things, incur or lend additional debt, pay dividends and make restricted payments, and encumber its assets. The failure of the Company to comply with the covenants contained in the facility or to repay or refinance the facility by its maturity date could result in an event of default, which could, through acceleration of debt, enforcement of security or otherwise, materially and adversely affect the operating results and financial condition of the Company.

FINANCIAL STATEMENTS PREPARED ON A GOING CONCERN BASIS

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

RISK FACTORS - CONTINUED

SHARED OWNERSHIP AND DEPENDENCY ON PARTNERS

The Company's operations are primarily conducted together with one or more joint venture partners through contractual arrangements, including unincorporated associations. In such instances, the Company may be dependent on, or affected by, the due performance and financial strength of its partners. If a partner fails to perform or becomes insolvent, the Company may, among other things, risk losing rights or revenues or incur additional obligations or costs, experience delays, or be required to perform such obligations in place of its partners. The Company and its partners may also, from time to time, have different opinions on how to conduct certain operations or on what their respective rights and obligations are under a certain agreement. If a dispute were to arise with one or more partners relating to a project, such dispute may have material adverse effect on the Company's operations relating to such project.

UNCERTAINTY OF TITLE

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

RISKS RELATING TO CONCESSIONS, LICENSES AND CONTRACTS

The Company's operations are based on a relatively limited number of concession agreements, licenses and contracts. The rights and obligations under such concessions, licenses and contracts may be subject to interpretation and could also be affected by, among other things, matters outside the control of the Company. In case of a dispute, it cannot be certain that the view of the Company would prevail or that the Company otherwise could effectively enforce its rights which, in turn, could have significantly negative effects on it. Also, if the Company or any of its partners were found to have failed to comply with their obligations or liabilities under a concession, license or contract, including record-keeping, budgeting, and time scheduling requirements under production sharing contracts, the Company's or partner's rights under such concession, license or contract may be terminated or otherwise relinquished in whole or in part. The Company cannot guarantee that requirements are adequately met by its joint venture partners, which could bring an increased risk of impairment and reduced future cash flow.

RISKS RELATING TO AUDITS AND COST-RECOVERY OIL (KENYA)

Under the terms of the Company's Block 10BA, Block 10BB, and Block 13T production sharing contracts, up to a stated maximum percentage of net available oil is available for cost-recovery by the respective joint venture partners. Costs subject to cost recovery include all costs and expenditures incurred by the joint venture partners for exploration, development, production, and decommissioning operations, as well as any other applicable costs and expenditures incurred directly or indirectly with such activities. Such costs may be subject to audits which could identify amounts claimed by the joint venture partners as being disallowed expenditures, which could negatively impact the joint ventures' ability to recover and develop projects, as planned. Such costs may also form the basis of consideration in historical and future farm out agreements. The Company cannot guarantee that record-keeping, accounting, budgeting, and time scheduling requirements are adequately met by its joint venture partners, which could bring an increased risk of impairment, claims from joint venture partners, and reduced future cash flow.

RELIANCE ON THIRD-PARTY INFRASTRUCTURE

The amount of oil and natural gas that the Company and its joint venture partners are able to produce, and sell is subject to the accessibility, availability, proximity and capacity of gathering, processing and pipeline systems. The lack of availability of capacity in any of the gathering, processing and pipeline systems, and in particular the processing facilities could result in the Company's inability to realize the full economic potential of its production or in a reduction of the price offered for the Company's production. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays in constructing new infrastructure systems and facilities could harm the Company's business financial condition, results of operations, cash flows and future prospects.

RISKS ASSOCIATED WITH DISCOVERING OIL

While the Company has made discoveries, there is no certainty that any additional resources will be discovered. Once discovered, there is no certainty that the discovery will be commercially viable to produce any portion of the resources. The portion of the Company's portfolio which include discoveries require additional data to fully define their potential and significant changes to the resource estimates will occur with the incorporation of additional data and information.

RISKS ASSOCIATED WITH ESTIMATES

In the event of a discovery, basic reservoir parameters, such as porosity, net hydrocarbon pay thickness, fluid composition and water saturation, may vary from those assumed by the Company's independent third-party resource evaluator affecting the volume of hydrocarbon estimated to be present. Other factors such as the reservoir pressure, density and viscosity of the oil and solution gas/oil ratio will affect the volume of oil that can be recovered. Additional reservoir parameters such as permeability, the presence or absence of water drive and the specific mineralogy of the reservoir rock may affect the efficiency of the recovery process. Recovery of the resources may also be affected by well performance, reliability of production and process facilities, the availability and quality of source water for enhanced recovery processes and availability of fuel gas. There is no certainty that certain interests are not affected by ownership considerations that have not yet come to light.

WELL-FLOW TEST RESULTS

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

SUBSTANTIAL CAPITAL REQUIREMENTS

The Company expects to make substantial capital expenditures for exploration, development and production of oil and gas reserves in the future. The Company's ability to access the equity or debt markets may be affected by any prolonged market instability and changing requirements relating to climate change. The inability to access the equity or debt markets for sufficient capital, at acceptable terms and within required time frames, could have a material adverse effect on the Company's financial condition, results of operations and prospects.

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

AVAILABILITY OF EQUIPMENT AND STAFF

The Company's oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment and qualified staff in the particular areas where such activities are or will be conducted. The Company currently leases all the drilling rigs used for its exploration and development activities. Shortages of such equipment or staff may affect the availability of such equipment to the Company and may delay the Company's exploration and development activities and result in lower production.

RELIANCE ON KEY PERSONNEL

The loss of the services of key personnel could have a material adverse effect on the Company's business, prospects and results of operations. The Company has not obtained key person insurance in respect of the lives of any key personnel. In addition, competition for qualified personnel in the oil and gas industry is considerable and there can be no assurance that the Company will be able to attract and retain the skilled personnel necessary for operation and development of its business. Success of the Company is largely dependent upon the performance of its management and key employees.

RESERVES AND RESOURCES VOLUMES

There are many uncertainties inherent in estimating quantities of oil and natural gas reserves and resources (contingent and prospective) and the future cash flows attributed to such reserves and resources. The actual production, revenues, taxes and development and operating expenditures with respect to the reserves and resources associated with the Company's assets will vary from estimates thereof and such variations could be material. Estimates of reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. There is uncertainty that it will be commercially viable to produce any portion of the contingent resources. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

RISKS RELATING TO INFRASTRUCTURE

The Company is dependent on available and functioning infrastructure relating to the properties on which it operates, such as roads, power and water supplies, pipelines and gathering systems. If any infrastructure or systems failures occur or do not meet the requirements of the Company, its operations may be significantly hampered. Currently there is limited local infrastructure for the production and distribution of oil and gas in the countries in which the Company operates. Export infrastructure to enable other markets to be accessed has not yet been developed and is contingent on numerous factors including, but not limited to, sufficient reserves being discovered to reach a commercial threshold to justify the construction of export pipelines and agreement amongst various government agencies regulating the transportation and sale of oil and gas. The Company is working with its joint venture partners and government authorities to evaluate the commercial potential and technical feasibility of discoveries made to date and potential future discoveries.

CURRENT GLOBAL FINANCIAL CONDITIONS

Global financial conditions have always been subject to volatility. These factors may impact the ability of the Company to obtain equity or debt financing in the future, and, if obtained, on terms favorable to the Company. Increased levels of volatility and market turmoil can adversely impact the Company's operations and the value, and the price of the common shares could be adversely affected.

FOREIGN CURRENCY EXCHANGE RATE RISK

The Company is exposed to changes in foreign exchange rates as expenses in international subsidiaries, oil and gas expenditures, or financial instruments may fluctuate due to changes in rates. The Company's exposure is partially offset by sourcing capital projects and expenditures in US dollars. The Company had no forward exchange contracts in place as at December 31, 2021.

CREDIT RISK

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

CYBERSECURITY

The Company has become increasingly dependent upon the availability, capacity, reliability and security of its IT infrastructure, and its ability to expand and continually update this infrastructure, to conduct daily operations. It depends on various IT systems to estimate resources and reserve quantities, process and record financial and operating data, analyze seismic and drilling information, and communicate with employees and third-party partners. The Company's IT systems are increasingly integrated in terms of geography, number of systems, and key resources supporting the delivery of IT systems. The performance of key suppliers is critical to ensure appropriate delivery of key services. Any failure to manage, expand and update the IT infrastructure, any failure in the extension or operation of this infrastructure, or any failure by key resources or service providers in the performance of their services could materially and adversely affect the Company's business, financial condition and results of operations.

The ability of the IT function to support the Company's business in the event of a disaster such as fire, flood or loss of any of the office locations and the ability to recover key systems from unexpected interruptions cannot be fully tested. There is a risk that, if such an event actually occurs, the Company's continuity plan may not be adequate to immediately address all repercussions of the disaster. In the event of a disaster affecting a data centre or key office location, key systems may be unavailable for a number of days, leading to inability to perform some business processes in a timely manner.

The Company applies technical and process controls and security measures in line with industry-accepted standards to protect information, assets and systems. However, these controls and measures on which the Company relies may not be adequate due to the increasing volume, sophistication and rapidly evolving nature of cyber threats. The Company's information technology and infrastructure, including process control systems, may be vulnerable to attached by malicious persons or entities or breached due to employee error, malfeasance or other disruptions, including natural disasters and acts of war. There is no assurance that the Company will not suffer losses associated with cyber-security attacks, breaches, access, disclosure or loss of information in the future and may be required to expend significant additional resources to investigate, mitigate and remediate any potential vulnerabilities or could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruptions to the Company's operations, decreased performance and production, increased costs and damage to the Company's reputation or other negative consequences to the Company, which could have a material adverse effect on the Company's business, financial condition and results of operations.

CONFLICT OF INTERESTS

Certain directors of the Company are also directors or officers of other companies, including oil and gas companies, the interests of which may, in certain circumstances, come into conflict with those of the Company. If and when a conflict arises with respect to a particular transaction, the Company requires that its affected directors and officers must disclose the conflict, recuse themselves, and abstain from voting with respect to matters relating to the transaction. All conflicts of interest will be addressed in accordance with the provisions of the BC BCA and other applicable laws.

LIMITATION OF LEGAL REMEDIES

Securities legislation in certain of the provinces and territories of Canada provides purchasers with various rights and remedies when a reporting issuer's continuous disclosure contains a misrepresentation and ongoing rights to bring actions for civil liability for secondary market disclosure. Under the legislation, the directors would be liable for a misrepresentation. It may be difficult for investors to collect from the directors who are resident outside Canada on judgements obtained in courts in Canada predicated on the purchaser's statutory rights and on other civil liability provisions of Canadian securities legislation.

SELLING OFF OF SHARES

The market price for the Company's common shares may be volatile, and subject to some fluctuations. To the extent that any issued and outstanding common shares of the Company are sold into the market, there may be an oversupply of common shares and an undersupply of purchasers. If this occurs the market price for the common shares of the Company may decline significantly and investors may be unable to sell their common shares at a profit, or at all.

INDUSTRY REGULATORY RISK

Existing regulations in the oil industry, and changes to such regulations, may present regulatory and economic barriers to the purchase and use of certain products, which may significantly reduce the Company's revenues.

FORWARD-LOOKING STATEMENTS

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

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

COVID-19 has had a significant impact on the oil and gas industry, including a substantial reduction in oil demand worldwide, market volatility and oil price weakness. There has been a robust response by international oil producers led by the group of OPEC+ countries to reduce supply and address the challenge of demand destruction. The group have started to relax the quotas they have imposed but the Company cannot assure 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, nor can the Company predict the time it will take for oil demand to recover to the pre-pandemic level. Such adverse effects may continue and could affect the Company and the Company's share price.

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

- The Company plans to institute a shareholder capital return program or the implementation of share buy-backs
- The Company's plans to prepare an Energy Transition Plan and the steps to be taken by the Company in relation to the Energy Transition Plan;
- Expected closing dates for the completion of proposed transactions;
- Planned exploration, appraisal and development activity including both expected drilling and target drilling dates, and geological and geophysical related activities;
- Potential for an improved economic environment;
- The Company's anticipated timing for the receipt of dividends from Prime
- The Company's plans to prioritize repayment of its long-term debt, utilizing dividends received from Prime
- Proposed development plans;
- Future development costs and the funding thereof;
- Expected finding and development costs;
- Anticipated future financing requirements;
- Future sources of funding for the Company's capital program;
- Future capital expenditures and their allocation to exploration and development activities;
- Ability for the Company to remain within existing financial headroom
- Expected operating costs;
- Future sources of liquidity, ability to fully fund the Company's expenditures from cash flows, and borrowing capacity;
- Availability of potential farmout partners;
- Government or other regulatory consent for exploration, development, farmout, or acquisition activities;
- Future production levels;
- Future crude oil, natural gas or chemical prices;
- Future earnings;
- Future asset acquisitions or dispositions;
- Future debt levels;
- Availability of committed credit facilities, including existing credit facilities, on terms and timing acceptable to the Company;
- Possible commerciality;
- Development plans or capacity expansions;
- Future ability to execute dispositions of assets or businesses;
- Future drilling of new wells;
- Ultimate recoverability of current and long-term assets;
- Ultimate recoverability of reserves or resources;
- Estimates on a per share basis;
- Future foreign currency exchange rates;

FORWARD-LOOKING STATEMENTS - CONTINUED

- Future market interest rates;
- Future expenditures and future allowances relating to environmental matters;
- Dates by which certain areas will be explored or developed or will come on stream or reach expected operating capacity;
- The Company's ability to comply with future legislation or regulations;
- Future staffing level requirements; and
- Changes in any of the foregoing.

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

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

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

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

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

Independent auditor's report

To the Shareholders of Africa Oil Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Africa Oil Corp. and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2021 and 2020;
- the consolidated statements of net income/(loss) and comprehensive income/(loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated cash flow statements for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were

PricewaterhouseCoopers LLP
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

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addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of intangible exploration assets of the Project Oil Kenya cash generating unit *Refer to note 3 – Basis of preparation, note 4 – Significant accounting policies and note 8 – Intangible exploration assets to the consolidated financial statements.* As at December 31, 2021, the carrying amount of the Company's intangible exploration assets for the Project Oil Kenya cash generating unit (Block 10BB and 13T) (Project Oil Kenya CGU) was $189.6 million. Intangible exploration assets are assessed for impairment if there is an indicator of impairment or impairment reversal. An impairment assessment is performed at the CGU level, which is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. An impairment loss is recognized if the carrying amount of the CGU exceeds its estimated recoverable amount. An impairment reversal is recognized to the extent that the CGU's recoverable amount does not exceed the carrying amount that would have been determined if no impairment had been recognized. As at December 31, 2021, management determined that due to an increase in the oil price and a reduction of the impact from the global pandemic, management performed an impairment assessment of the Project Oil Kenya CGU. Management used fair value less costs of disposal using a discounted cash flow method to determine the recoverable amount of the Project Oil Kenya CGU.	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the recoverable amount of the Project Oil Kenya CGU: – Evaluated the appropriateness of the method used by management. – Tested the data used in determining the recoverable amount. – Evaluated the reasonableness of management's key assumptions: ○ Operating expenses and development costs by considering past performance and whether these assumptions were consistent with evidence obtained in other areas of the audit. ○ Future commodity prices by comparing those forecasts to third party industry forecasts. ○ Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the reasonableness of the discount rate assumption. • The work of management's experts was used in performing the procedures to evaluate the reasonableness of the estimates for the quantity of contingent resources and production forecasts. As a basis for using this work, the competence, capabilities and objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures

Key audit matter	How our audit addressed the key audit matter
Management used significant judgment and key assumptions to determine the recoverable amount of the Kenyan development project CGU including the quantity of contingent resources, future commodity prices, production forecasts, operating expenses, development costs and the discount rate. The estimates for the quantity of contingent resources and production forecasts are prepared by the Company's independent petroleum engineers (management's experts). We considered this a key audit matter due to the significant judgment by management, including the use of management's experts, to determine the recoverable amount of the Kenyan development project CGU, a high degree of auditor judgment, subjectivity and effort in performing procedures relating to management's key assumptions, and the audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.	performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings.
The impact of proved and probable oil and gas reserves on the DD&A expense included in the Company's proportionate share of income recognized for the equity accounted investment in Prime *Refer to note 3 – Basis of preparation, note 4 – Significant accounting policies and note 6 – Equity investment in joint venture to the consolidated financial statements.* The carrying value of the Company's equity accounted investment in Prime Oil and Gas Coöperatief U.A. (Prime) was $617.1 million at December 31, 2021. The Company recognized income of $224.4 million relating to its investment in Prime for the year ended December 31, 2021, which included the Company's proportionate share of the depreciation, depletion and amortization (DD&A)	Our approach to addressing the matter included the following procedures, among others: • Tested how Prime's management determined the estimated quantities of the total proved and probable oil and gas reserves which impact the DD&A expense included in the Company's proportionate share of income recognized for the investment in Prime: – Evaluated the appropriateness of the unit-of-production method used by management. – Tested the data used in determining the DD&A expense. – Evaluated the reasonableness of key assumptions used by Prime's management to determine the

Key audit matter	How our audit addressed the key audit matter
expense. Prime's oil and gas properties are depreciated on a unit-of-production method over the estimated quantities of the total proved and probable oil and gas reserves. Costs used in the unit-of-production calculation comprise the net carrying amount of capitalized costs plus the estimated future field development costs. Key assumptions used by Prime's management to determine the estimated quantities of the total proved and probable oil and gas reserves, which impact the DD&A expense included in the Company's proportionate share of income recognized for the investment in Prime, include operating costs, future field development costs and future commodity prices. The estimates for the quantities of the total proved and probable oil and gas reserves are based on information provided by independent petroleum engineers (management's experts). We considered this a key audit matter due to the significance of the Company's equity accounted investment in Prime, the significant judgment by Prime's management, including the use of management's experts, to determine the estimated quantities of the total proved and probable oil and gas reserves which impact the DD&A expense included in the Company's proportionate share of income recognized for the investment in Prime, and a high degree of auditor judgment, subjectivity and effort in performing procedures relating to key assumptions used by Prime's management.	estimated quantities of the total proved and probable oil and gas reserves: • The work of management's experts was used in performing the procedures to evaluate the reasonableness of the estimates for the quantities of the total proved and probable oil and gas reserves. As a basis for using this work, the competence, capabilities and objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings. These procedures also included evaluating whether the assumptions related to operating costs, future field development costs and future commodity prices were reasonable considering the past performance of Prime, evidence obtained in other areas of the audit and by comparing future commodity prices to third party industry forecasts. – Recalculated the unit-of-production rates used to calculate the DD&A expense included in the Company's proportionate share of income recognized for the equity accounted investment in Prime.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Alisa Sorochan.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
February 28, 2022

CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of United States dollars)

As at	Note	December 31, 2021	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents	5	58,885	40,474
Accounts receivable and prepaid expenses		658	1,385
		59,543	41,859
Long-term assets			
Equity investment in joint venture	6	617,127	561,302
Equity investments in associates	7	120,688	116,212
Property and equipment		209	730
Intangible exploration assets	8	194,051	190,396
		932,075	868,640
Total assets		991,618	910,499
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	9	3,649	11,172
Share-based compensation liability	15	3,971	1,597
		7,620	12,769
Long-term liabilities			
Share-based compensation liability	15	3,940	2,443
Provision for contingent consideration	6	32,000	-
Long-term debt	10	-	141,000
		35,940	143,443
Total liabilities		43,560	156,212
Equity attributable to common shareholders			
Share capital	11(b)	1,309,127	1,306,476
Contributed surplus		51,143	50,839
Deficit		(412,212)	(610,719)
Accumulated other comprehensive income		-	7,691
Total equity attributable to common shareholders		948,058	754,287
Total liabilities and equity attributable to common shareholders		991,618	910,499
Commitments and contingencies	12	-	-

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

Approved on behalf of the Board

"ANDREW BARTLETT"

ANDREW BARTLETT, DIRECTOR

"KEITH HILL"

KEITH HILL, DIRECTOR

CONSOLIDATED STATEMENTS OF NET INCOME/ (LOSS) AND COMPREHENSIVE INCOME/ (LOSS)

(Expressed in thousands of United States dollars)

For the years ended	Note	December 31, 2021	December 31, 2020
Operating income			
Share of profit from investment in joint venture	6	224,384	208,981
Share of income from investments in associates	7	2,495	31,381
Total operating income		226,879	240,362
Operating expenses			
Salaries and benefits		(6,279)	(5,667)
Share-based compensation	15	(6,318)	(2,969)
Office and general		(5,428)	(5,493)
Impairment of intangible exploration assets	8	-	(215,600)
Total operating expense		(18,025)	(229,729)
Net operating income		208,854	10,633
Finance income	13	144	1,102
Finance expense	13	(18,276)	(29,349)
Net income/ (loss) attributable to common shareholders		190,722	(17,614)
Other comprehensive (loss)/ income			
Share of joint venture other comprehensive (loss)/ income	7	(559)	7,691
Total comprehensive income/ (loss)		190,163	(9,923)
Net income/ (loss) attributable to common shareholders per share			
Basic	14	0.40	(0.04)
Diluted	14	0.40	(0.04)
Weighted average number of shares outstanding for the purpose of calculating earnings per share			
Basic	14	473,332,153	471,792,153
Diluted	14	477,361,286	471,792,153

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

CONSOLIDATED STATEMENTS OF EQUITY

(Expressed in thousands of United States dollars)

For the years ended	Note	December 31, 2021	December 31, 2020
Share capital:			
Balance, beginning of the year	11(b)	1,306,476	1,305,953
Settlement of Performance Share Units	15	508	88
Settlement of Restricted Share Units	15	939	435
Exercise of Share Options	15	1,204	-
Balance, end of the year		1,309,127	1,306,476
Contributed surplus:			
Balance, beginning of the year		50,839	51,389
Share-based compensation	15	398	705
Transfer to deficit		(94)	-
Reclass of Performance Share Units from equity settled to cash settled		-	(1,255)
Balance, end of the year		51,143	50,839
Deficit:			
Balance, beginning of the year		(610,719)	(590,639)
Transfer from contributed surplus		94	-
Prior year adjustment		-	(2,466)
Net income/ (loss) attributable to common shareholders		190,722	(17,614)
Amounts transferred from accumulated other comprehensive income		7,691	-
Balance, end of the year		(412,212)	(610,719)
Accumulated other comprehensive income:			
Balance, beginning of the year		7,691	-
Other comprehensive income	6	(559)	7,691
Amounts transferred to deficit		(7,691)	-
Amounts transferred to Statement of Net Income/ (Loss)		559	-
Balance, end of the year		-	7,691
Total equity attributable to common shareholders			
Balance, end of the year		948,058	754,287

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of United States dollars)

For the years ended	Note	December 31, 2021	December 31, 2020
Cash flows generated by/ (used in):			
Operations:			
Net income/ (loss) for the year		190,722	(17,614)
Adjustments for:			
Share-based compensation	15	6,318	2,969
Impairment of intangible exploration assets		-	215,600
Share of profit from investment in joint venture	6	(224,384)	(208,981)
Share of income from investments in associates	7	(2,495)	(31,381)
Finance expense	13	18,276	28,852
Other		1,186	1,306
Changes in non-cash operating working capital	22	168	3,901
Net cash used in operating activities		(10,209)	(5,348)
Investing:			
Property and equipment expenditures		-	(87)
Intangible exploration expenditures	8	(4,586)	(20,802)
Acquisition cost of joint venture		-	(544,630)
Equity investment in associates	7	(1,981)	(23,734)
Dividends received from joint venture	6	200,000	200,000
Changes in non-cash investing working capital	22	(5,730)	(5,019)
Net cash generated by/ (used in) investing activities		187,703	(394,272)
Financing:			
Term Loan relating to acquisition of joint venture	10	-	250,000
Repayment of Term Loan	10	(141,000)	(109,000)
Drawdown of Corporate Facility	10	98,000	-
Repayment of Corporate Facility	10	(98,000)	-
Payment of interest and arrangement fees		(18,269)	(28,835)
Settlement of Performance and Restricted Share Units	15	(427)	(330)
Exercise of Share Options		1,113	-
Payment of lease obligations		(536)	(1,191)
Net cash (used in)/ generated by financing activities		(159,119)	110,644
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		36	(14)
Increase/ (decrease) in cash and cash equivalents		18,411	(288,990)
Cash and cash equivalents, beginning of the year		40,474	329,464
Cash and cash equivalents, end of the year	5	58,885	40,474
Supplementary information:			
Income taxes paid		110	Nil

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2021, and December 31, 2020
(Expressed in thousands of United States dollars unless otherwise indicated)

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 Suite 2000 - 885 West Georgia St. Vancouver, BC, Canada V6C 3E8.

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, climate change and environmental compliance, a change in crude oil or natural gas pricing policies, receipt of dividend streams, the availability of capital, change in government regulations and taxation policies, risks inherent in oil and gas exploration, development and production, operating in many international jurisdictions, different legal systems and litigation, anti-bribery and anti-corruption laws, shared ownership and dependency of partners, 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, cost recovery oil, reliance on third party infrastructure, discovery of oil and associated estimates and well test results, availability of equipment and staff, reliance on key staff, reserves and resources volumes, infrastructure, global financial conditions, foreign exchange rates, credit risks, cybersecurity risks, conflicts of interest, share price and changes in industry regulations, 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, investments, 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:

2021 has still seen significant uncertainty and market volatility due to the impact of the COVID-19 pandemic, but the demand for oil has increased which has led to a steady increase in the oil price (including WTI and Brent) to above $77/bbl at December 31, 2021. The outlook for the industry looks significantly better than during the height of the pandemic but there is still uncertainty as to the time it will take for business activity and travel to return to normal.

The impact of COVID-19 on the Company is largely related to the potential reduction in dividends received from its investment in Prime Oil and Gas Coöperatief U.A. ("Prime") that has three producing fields in Nigeria. Prime distributed $200.0 million of dividends to the Company in 2021 and continues to forecast dividends in 2022 and beyond. Prime benefits from a robust oil price hedging program and the hedging policy requires hedging or forward selling between 50% and 70% of its forecast liftings on a rolling 12 month basis. There have been no significant disruptions to operations due to the strict mitigation strategies the operators of Prime's Nigerian assets, Total S.A. ("Total") and Chevron Corporation ("Chevron") have implemented to minimize the risk of COVID-19.

3. Basis of preparation:

A. Statement of compliance:

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as at February 28, 2022, 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. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

C. Functional and presentation currency:

These consolidated financial statements are presented in United States (US) dollars. The functional currencies of 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 judgements:

The preparation of financial statements in conformity with IFRS requires management to make judgements, 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.

Information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are noted below, with further details of the assumptions contained in the relevant note. The Company has a 50% interest in Prime, which is a key asset for the Company. Information about Prime's reserve and resource estimates has been included.

i. Exploration and evaluation costs:

Exploration and evaluation costs are initially capitalized as intangible exploration assets with the intent to establish commercially viable reserves. The Company is required to make significant estimates and judgements about the future events and circumstances regarding whether the carrying amount of intangible exploration assets exceeds its recoverable amount (see note 8).

The carrying amounts of the Company's exploration and evaluation costs are reviewed at each reporting date to determine whether there is any indication of impairment. Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. An impairment loss is recognized if the carrying amount of the exploration and evaluations assets exceeds its estimated recoverable amount.

Significant assumptions developed by management used to determine the recoverable amount of the cash generating unit ("CGU") include estimates for the quantity of contingent resources, future commodity prices, production forecasts, operating expenses, development costs, the timing of financial investment decision ("FID") and the discount rate. The contingent resources and production rates are prepared by the Company's independent petroleum engineers (management's experts). CGU's are assets that are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

Exploration and evaluation assets are assessed if facts and circumstances suggest that an impairment loss recognized in prior periods may no longer exist or may have decreased. An impairment reversal is recognized if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

The changing worldwide demand for energy and the global advancement of alternative sources of energy could result in a change in the assumptions used to determine the recoverable amount and could affect estimating the future cash flows which could impact the carrying amount of the Company's intangible exploration assets. The timing of when global energy markets transition from carbon-based sources to alternative energy sources is highly uncertain. Environmental considerations are built into our estimates through the use of key assumptions in estimating fair value including future commodity prices and discount rates. The energy transition could impact the future prices of commodities and discount rates used to appraise oil and gas projects. Pricing assumptions used in the determination of recoverable amounts incorporate markets expectations and the evolving worldwide demand for energy.

ii. Share-based compensation:

Charges for share purchase options are based on the fair value at the date of the award. Share purchase options are valued using the Black-Scholes model, and inputs to the model include assumptions on share price volatility, discount rates and expected life outstanding (see note 15).

The estimated fair value of Performance share units ("PSUs") is calculated based on non-market performance conditions set by the Company which are initially determined at the time of grant. The Company assesses the progress of reaching the individual performance conditions during each reporting period. PSUs cliff vest three years from the date of grant, at which time the Board of Directors will assign a performance multiple ranging from nil to 200% to determine the ultimate vested number of PSUs. It is anticipated that PSU settlements will be made by issuing shares from treasury or cash, at the discretion of the Board of Directors (see note 15).

The estimated fair value of the Restricted share units ("RSUs") is initially determined at the time of grant. The awards are revalued every quarter based on the Company's share price. RSUs may be settled in shares issued from treasury or cash, at the discretion of the Board of Directors (see note 15).

iii. Consolidation of entities:

When assessing control over a subsidiary, the Company is required to consider the nature of its relationship with the subsidiary, and whether strategic and operating decisions made by the subsidiary are made independently without the significant influence or control of the Company. Factors considered when assessing for control include share ownership, board composition and management involvement in the business. The determination of whether strategic and operating decisions made by the Company's subsidiaries (see note 18) are made independently without the significant influence or control of the Company requires judgement.

iv. Valuation of investments:

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. Investments in associates are initially recorded at cost. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the share of the net fair value of the identifiable assets and liabilities of the investee is recognized as notional goodwill, which is included within the carrying amount of the investment. Significant assumptions developed by management used to determine the fair value of the non-current assets include estimates for the quantity of proved and probable petroleum reserves, future commodity prices, operating and capital costs as well as discount rates. The proved and probable petroleum reserves are prepared by the Company's independent petroleum engineers (management's experts).

Any revisions to the contingent consideration estimates after the date of acquisition, considered as changes in estimates in accordance with IAS 8, are accounted for on a prospective basis. Any change in the liability as a result of the revised cash flows is adjusted to the cost of the asset and, in accordance with paragraph 37 of IAS 8, recognized as part of the associate or joint venture carrying amount rather than in profit or loss.

v. 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.

An area in which the Company has applied judgement in the prior year relates 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.

vi. Deferred tax asset:

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

vii. Contingencies:

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

viii. Hydrocarbon reserve and resource estimates:

Oil and gas production assets are depreciated on a units-of-production ("UoP") basis at a rate calculated by reference to total proved and probable oil and gas reserves ("2P") determined in accordance with the principles contained in the SPE Petroleum Resources Management Reporting System ("PRMS") framework. Facilities included in oil and gas production assets are depreciated on a straight-line basis over the economic useful life of the field.

Prime estimates its 2P reserves based on information provided by reputable independent petroleum engineers, either direct in case Prime acts as operator, or indirect, through the information provided by the respective operators. This information from reputable independent petroleum engineers concerns, amongst others, the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates.

2P reserves are determined using estimates of oil and gas in place, recovery factors, operating expenses, future development costs and future commodity prices; the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the Production-Sharing Agreements.

The current long-term Brent oil price assumption used in the estimation of proved and probable reserves is based on the long-term oil price forward curve of Bloomberg L.P.

As the economic assumptions used may change and, as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change.

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. Basis of consolidation:

i. Subsidiaries:

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The fair value of property, plant and equipment and intangible exploration assets recognized in a business combination, is based on market values. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the Statement of Net Income/ (Loss) and Comprehensive Income/ (Loss).

ii. Jointly controlled operations and jointly controlled assets:

Many of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and liabilities and a proportionate share of the relevant revenue and related costs.

iii. Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

B. Equity method:

Investments in joint ventures and 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 at each reporting date 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.

The Company has a 50% interest in Prime which is a key asset for the Company. The most significant accounting policies for Prime are as follows:

i. Sales of crude oil and natural gas:

Revenue from the sale of crude oil and natural gas is recognized when control of the goods transfers to the customer. The transfer of control of the crude oil and natural gas sold by Prime usually coincides with title passing to the customer and the customer taking physical possession. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism.

Crude oil transaction prices under fixed forward contracts are based on the agreed contract price plus or minus a premium based on an arithmetical average of the mean in quoted market prices for the previous month of the bill of lading. The performance obligation is satisfied and payment is due upon delivery, FOB, to the buyer. At this point in time, at the bill of lading date, a trade receivable is recognized and there are generally 30 days between revenue recognition and payment. There are no obligations for returns, refunds, warranties nor other obligations when control has been transferred.

Prime principally satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance obligations satisfied over time are not significant.

Revenue from crude oil transactions not covered under fixed forward contracts, arises from the production and lifting of crude oil on an 'entitlements' basis. Under the entitlement's method, revenue reflects Prime's share of production under the terms of the relevant production sharing contracts, regardless of which participant has actually made the sale and invoiced the production. This is achieved by applying the following approach in dealing with imbalances between actual sales and entitlements.

Crude oil entitlement underlifts are recognized at the market price of oil at the date of lifting. The excess of product sold during the period over the participant's ownership share of production is recognized by Prime (acting as underlifter) as an asset in trade and other receivables with a corresponding credit to cost of sales. Prime's underlift receivable is the right to receive additional oil from future production without the obligation to fund the production of that additional oil.

Crude oil entitlement overlifts are treated as a purchase of crude oil by the overlifter from the underlifter and are also recognized at the market price of oil at the date of lifting. The excess of product purchased during the period over the participant's ownership share of production is recognized by Prime (acting as overlifter) as a liability in trade and other payables with a corresponding charge to cost of sales. An overlift liability is the obligation to deliver oil out of Prime's equity share of future production.

Revenues resulting from the production of oil under Production Sharing Contracts ('PSCs') is recognized for those amounts relating to Prime's cost recoveries and Prime's share of the remaining production. Sales between group companies are based on prices generally equivalent to commercially available prices.

ii. Tax oil revenue:

According to the production-sharing agreements ("PSAs"), the share of the profit oil ("PPT") to which the government is entitled in any calendar year, in accordance with the PSA, is deemed to include a portion representing the corporate income tax imposed upon and due by Prime. As the tax oil lifted by the operator on behalf of Prime is sold to 3rd party customers and proceeds are used to settle Prime's tax liabilities, this share of PPT is considered to be within the scope of IFRS 15, 'Revenue from contracts with customers'. Consequently, this portion of income tax and revenue is presented gross in profit and loss. Investment tax credit utilized is recognized as 'Other operating income'.

iii. Depreciation/amortization:

Oil and gas properties are depreciated/amortized from the commencement of production, on a UoP basis, which is the ratio of oil and gas production in the period to the estimated quantities of the 2P reserves at the end of the period plus the production in the period, on a field-by-field basis. Facilities included in oil and gas production assets are depreciated on a straight-line basis over the economic useful life of the field concerned. Costs used in the UoP calculation and straight-line depreciation comprise the net carrying amount of capitalized costs plus the estimated future field development costs. Changes in the estimates of reserves or future field development costs are dealt with prospectively. Oil and gas volumes are considered produced once they have been

measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank. Rights and concessions are depleted on the UoP basis over the total proved and probable reserves of the relevant area.

C. Long-term debt:

Long-term debt is initially measured at fair value less transaction costs that are directly attributable to the acquisition or issue of the debt. Subsequently, long-term debt is measured at amortized cost using the effective interest method. Long-term debt is classified as current if the liability is due to be settled within twelve months from the reporting date. All other debt is classified as non-current.

D. Foreign currency:

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at exchange rates prevailing at the balance sheet date and non-monetary assets and liabilities are translated at rates in effect on the date of the transaction. Revenues and expenses are translated at exchange rates at the date of transaction. Exchange gains or losses arising from translation are included in the Statement of Net Income/ (Loss) and Comprehensive Income/ (Loss).

E. Property and equipment and Intangible exploration assets:

i. Pre-exploration expenditures:

Costs incurred prior to obtaining the legal rights to explore an area are recognized in the Statement of Net Income/ (Loss) and Comprehensive Income/ (Loss) as incurred.

ii. Exploration expenditures:

Exploration expenditures include costs associated with the acquisition of a license interest, directly attributable general and administrative costs, expenditures incurred in the process of determining oil and gas exploration targets, and exploration drilling costs. All exploration expenditures with common geological structures and shared infrastructure are accumulated together within intangible exploration assets. The Company does not aggregate exploration expenditures above the segment level for the purpose of impairment testing. Costs are not depleted until such time as the exploration phases on the license area are complete, the license area is relinquished, or commercially viable reserves have been discovered and extraction of those reserves is determined to be technically feasible.

If commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalized intangible exploration costs are transferred into a CGU within oil and gas interests subsequent to determining that the assets are not impaired (see "Impairment" below). Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are recognized in the Statement of Net Income/ (Loss) and Comprehensive Income/ (Loss).

Net proceeds from any disposal or farmout of an intangible exploration asset are recorded as a reduction in intangible exploration assets.

Net proceeds from the sale of test oil production are offset against intangible exploration expenditures.

iii. Development and production costs:

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated are capitalized within oil and gas interests on a CGU basis. Subsequent expenditures are capitalized only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any remaining costs associated with the part replaced are expensed in the Statement of Net Income/ (Loss) and Comprehensive Income/ (Loss).

Net proceeds from any disposal of oil and gas interests are recorded as a gain or loss on disposal recognized in the Statement of Net Income/ (Loss) and Comprehensive Income/ (Loss) to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalized costs of the asset.

F. Depreciation:

For property and equipment, depreciation is recognized in the Statement of Net Income/ (Loss) and Comprehensive Income/ (Loss) on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated. The estimated useful lives for other property and equipment, consisting of primarily office and computer equipment, for the current and comparative years are from one to three years.

G. Impairment:

i. Financial assets carried at amortized cost:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

The Company recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the Statement of Net Income/ (Loss) and Comprehensive Income/ (Loss).

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the Statement of Net Income/ (Loss) and Comprehensive Income/ (Loss).

ii. Non-financial assets:

The carrying amounts of the Company's non-financial assets, including the Company's equity investments, other than intangible exploration assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment or reversals of impairment. Intangible exploration assets are assessed for impairment when they are reclassified to property and equipment, as oil and gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use, an impairment test is completed each year.

For the purpose of impairment testing, assets are grouped together into a CGU. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal.

In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of 2P reserves. In determining fair value less costs of disposal, recent market transactions are taken into account, if available, and a post-tax discount rate is applied. In the absence of such transactions, an appropriate valuation model is used.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the Statement of Net Income/ (Loss) and Comprehensive Income/ (Loss). Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

If there is an indicator that a previous impairment may no longer exist or may have decreased, the recoverable amount of the relevant asset or its CGU is calculated and compared against the carrying amount. The impairment is reversed to the extent that the asset or its CGU's recoverable amount does not exceed the carrying amount that would have been determined if no impairment had been recognized. An impairment reversal is recognized in the Statement of Net Income/ (Loss) and Comprehensive Income/ (Loss).

H. Share purchase options:

The Company has a stock option plan as described in note 15. The Company uses the fair value method, utilizing the Black-Scholes option pricing model, for valuing share purchase options granted to directors, officers, consultants and employees. The estimated fair value is recognized over the applicable vesting period, commencing from the date of employee service, as stock-based compensation expense and an increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. When the share purchase options are exercised, the proceeds received, and the applicable amounts recorded in contributed surplus are credited to share capital.

I. Performance share units ("PSUs"):

The Company has a long-term incentive plan as described in note 15. Eligible plan participants may be granted PSUs. PSUs are accounted for as share-based awards. The estimated fair value of the awards is calculated based on non-market performance conditions set by the Company which are initially determined at the time of grant. The Company assesses the progress of reaching the individual performance conditions during each reporting period. PSUs cliff vest three years from the date of grant and the estimated fair value of the grant will be expensed evenly throughout the remaining vesting period. PSUs may be settled in shares issued from treasury or cash, at the discretion of the Board of Directors.

J. Restricted share units ("RSUs"):

The Company has a long-term incentive plan as described in note 15. Eligible plan participants may be granted RSUs. RSUs are accounted for as cash-based awards and recorded as a liability. The estimated fair value of the awards is initially determined at the time of grant. The awards are revalued every quarter based on the Company's share price and the change is recorded as share-based compensation in the statement of operations. RSUs granted to Non-Executive Directors cliff vest three years from the date of grant. RSUs granted to all other eligible plan participants vest over three years (1/3 on the first, second and third anniversary of grant). The estimated fair value of RSUs are expensed evenly throughout the remaining vesting period. RSUs may be settled in shares issued from treasury or cash, at the discretion of the Board of Directors.

K. Finance income and expenses:

Interest income is recognized as it accrues in the Statement of Net Income/ (Loss) and Comprehensive Income/ (Loss), using the effective interest method.

L. Income tax:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the Statement of Net Income/ (Loss) and Comprehensive Income/ (Loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

M. Earnings per share:

Basic earnings per share is calculated by dividing net income/ (loss) attributable to the common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is determined by adjusting the net income/ (loss) attributable to the common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees and warrants outstanding. The PSUs are considered to be contingently issuable and therefore have no dilutive effect. The weighted average number of diluted shares is calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price.

N. Financial instruments:

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the Balance Sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments either as fair value through profit and loss, fair value through other comprehensive income or at amortized cost depending on the purpose for which the instruments were acquired. The Company only has instruments recognized at fair value through profit and loss and amortized cost.

i. Financial assets and liabilities at fair value through profit or loss:

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the Statement of Net Income/ (Loss) and Comprehensive Income/ (Loss). Gains and losses arising from changes in fair value are presented in the Statement of Net Income/ (Loss) and Comprehensive Income/ (Loss) within financing income or expense in the year in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current. The Company does not have any financial instruments in this category.

ii. Financial liabilities at amortized cost:

Financial liabilities at amortized cost include accounts payables and debt and are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payables are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

O. Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

P. Contingent Consideration:

Contingent consideration formed part of the overall consideration for the acquisition of Prime. At the date of acquisition, an estimate of the contingent consideration is determined and included as part of the cost of the acquisition.

Subsequent to acquisition, contingent consideration can be treated using two acceptable methods, the cost-based approach and the fair value-based approach. The Company have determined the cost-based approach to give the best estimate of the value of the contingent consideration. Any revisions to the contingent consideration estimates after the date of acquisition, are accounted for as changes in estimates in accordance with IAS 8, to be accounted for on a prospective basis. The change in the liability, as a result of the revised cash flows, would be adjusted to the cost of the investment and, in accordance with paragraph 37 of IAS 8, recognized as part of the investment's carrying amount rather than in profit or loss.

The estimates involved in assessing the value of the contingent consideration include the expected timing of payments, the expected settlement value, the likelihood of settlement and the probability of the assessed outcomes occurring. There is significant judgement used in the determination of these estimates.

5. Cash and cash equivalents:

As at	December 31, 2021	December 31, 2020
Cash and cash equivalents	58,512	38,736
Restricted cash	373	1,738
	58,885	40,474

Restricted cash consists of the Company's cash balances that are held in joint venture bank accounts.

6. Equity investment in joint venture:

Prime Oil and Gas Coöperatief U.A. ("Prime"):

On January 14, 2020, the Company completed the acquisition of a 50% ownership interest in Prime. BTG Pactual Holding S.à.r.l., a private limited liability company governed and existing under the laws of the Grand Duchy of Luxembourg ("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.

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 and cover part of the producing Agbami field. OML 130 is operated by affiliates of Total S.A. and contains the producing Akpo and Egina fields.

In the year ended December 31, 2021, four dividend payments were made totaling $400.0 million gross, with a net payment to the Company of $200.0 million related to its 50% interest. During the year ended December 31, 2020, Prime distributed six dividend payments totaling $400.0 million gross, with a net payment to the Company of $200.0 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 members.

The following table shows the Company's carrying value of the investment in Prime as at December 31, 2021, and December 31, 2020.

	December 31, 2021	December 31, 2020
Balance, beginning of the year	561,302	-
Acquisition of common shares	-	519,500
Transaction and related fees associated with the acquisition of shares	-	25,130
Revaluation of contingent consideration	32,000	-
Dividends received from Prime	(200,000)	(200,000)
Share of joint venture other comprehensive (loss)/ income	(559)	7,691
Share of joint venture profit	224,384	208,981
Balance, end of the year	617,127	561,302

In the year ended December 31, 2021, the Company recognized income of $224.4 million relating to its investment in Prime (year ended December 31, 2020 - $209.0 million).

The Company recognized other comprehensive income relating to its share of movements of the fair value of hedge instruments recognized in Prime. These instruments have been settled in full as at December 31, 2021.

On June 25, 2021, Prime signed a Securitization Agreement with Equinor ASA ("Equinor") and Chevron, whereby Equinor agreed to pay a security deposit to the two other partners to secure future payments due under that Securitization Agreement, pending a comprehensive resolution being reached among all unit parties in respect of the tract participation in the Agbami field. In accordance with the Securitization Agreement, on June 29, 2021, Prime received from Equinor its portion of the security deposit in the form of a cash payment of $305.0 million. A provision for the full cash payment has been recorded within Prime to reflect the mechanism pursuant to which any such imbalance payments due from Equinor to Prime under the terms of any future agreement among the Agbami parties will be set-off against this security deposit. The parties will continue ongoing discussions in an attempt to seek final resolution of the formal redetermination of the Agbami tract participation.

Under the Prime Sale and Purchase Agreement completed on January 14, 2020, a deferred payment of $118.0 million, subject to adjustment, may be due to the seller contingent upon the timing and ultimate OML 127 tract participation in the Agbami field. The signing of the Securitization Agreement by Prime has led to the Company reassessing its view of the likelihood of making a contingent consideration payment to the seller. The signing of the Securitization Agreement by Prime does not constitute a redetermination of the tract participation and therefore does not trigger the payment of a contingent consideration under the Sale and Purchase Agreement but, at the Company's discretion, could trigger discussions with the seller. The outcome of this process is uncertain. The Company has therefore recorded $32.0 million as contingent consideration representing the best estimate of the most likely outcome and increased the Company's investment in Prime.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

As at December 31, 2021, the Company has determined that there are no indicators of impairment.

The following tables summarizes Prime's financial information as at and for the years ended December 31, 2021, and December 31, 2020.

Prime's Balance Sheet

As at	December 31, 2021	December 31, 2020
Cash and cash equivalents included in current assets [1]	517,878	231,355
Other current assets	369,722	170,152
Non-current assets [2]	3,433,742	3,703,130
Other current liabilities	(291,429)	(99,051)
Loans and borrowings included in current liabilities [3]	(523,771)	(493,740)
Financial liabilities included in current liabilities	-	(5,349)
Other non-current liabilities	(540,150)	(263,505)
Loans and borrowings included in non-current liabilities [3]	(493,018)	(809,067)
Deferred income tax liabilities included in non-current liabilities	(1,238,721)	(1,311,321)
Net assets of Prime	1,234,253	1,122,604
Percentage ownership	50%	50%
Proportionate share of Prime's net assets	617,127	561,302

1. See Prime's Statement of Cash Flows on page 57 for additional information on movements in cash and cash equivalents.
2. As at December 31, 2021, the carrying value of non-current assets included a fair value adjustment of $623.3 million (as at December 31, 2020 - $551.9 million). These amounts were allocated to goodwill as part of the notional purchase price allocation.
3. In the year ended December 31, 2021, Prime has repaid $436.0 million of RBL debt and drawn $150.0 million of the PXF Facility, reducing its gross debt to $1,016.8 million (year ended December 31, 2020, Prime repaid $522.0 million of debt reducing its gross debt to $1,302.8 million).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Prime's Statement of Net Income and Other Comprehensive Income

For the years ended	December 31, 2021	December 31, 2020
Revenue [1]	1,220,310	1,292,160
Depreciation, depletion and amortization	(303,387)	(447,786)
Production costs	(165,077)	(149,588)
Movement in underlift/overlift	32,082	53,051
Royalties	(105,674)	(25,115)
Cost of sales	(542,056)	(569,438)
Gross profit	678,254	722,722
Other operating income [2]	355,394	100,302
Exploration expenses	(3,887)	(4,369)
Impairment	-	(289,482)
Other operating costs [3]	(28,184)	(27,612)
Finance income	417	12,428
Finance costs [4]	(100,379)	(76,066)
Profit before tax from continuing operations	901,615	437,923
Tax [5]	(460,030)	5,698
Total profit for the year	441,585	443,621
Other comprehensive (loss)/ income	(1,118)	17,315
Total comprehensive income	440,467	460,936
Proportionate share of Prime's profit for the year [6]	220,793	201,290
Adjustments to share of Prime's profit for the year [7]	3,591	-
Total share of Prime's profit for the year	224,384	201,290
Proportionate share of Prime's other comprehensive (loss)/ income [6]	(559)	7,691
Proportionate share of Prime's net income [6]	223,825	208,981

1. Included in revenue are royalties paid in kind of $15.4 million in the year ended December 31, 2021 (year ended December 31, 2020 - $12.6 million).
2. For some of its qualifying capital expenditure ("QCE"), Prime is entitled to claim an investment tax credit ("ITC") at the rate of 50% of the QCE incurred, either wholly or exclusively or necessarily for the purposes of its petroleum operations. This is a Nigerian government tax credit which can be offset with Petroleum Profit Tax ("PPT") and serves as an incentive for investments in the exploration of oil and gas in the deep offshore waters of Nigeria. Prime recognized investment tax credits of $349.3 million in the year ended December 31, 2021 (year ended December 31, 2020, – $99.3 million).
3. Other operating costs include Prime's administrative costs, sales costs and the NDDC Levy, which concerns the Niger Delta Development Commission imposed by a regulatory body in Nigeria to fund the sustainable development of the Niger Delta region.
4. In the year ended December 31, 2021, finance costs of $100.4 million have been incurred (year ended December 31, 2020 - $76.1 million). Finance costs have increased in the year ended December 31, 2021, primarily from an increase in costs associated with the asset retirement obligation of $52.7 million compared to the year ended December 31, 2020. This movement has been offset by lower interest expenses in the year ended December 31, 2021, on Prime's RBL Facility following repayments totaling $436.0 million, slightly offset by an increase in interest due the $150.0 million PXF drawdown. Finance costs in the year ended December 31, 2021, include losses on derivative financial instruments of $30.6 million (year ended December 31, 2020 - $14.6 million).
5. In the year ended December 31, 2021, a tax expense of $460.0 million has been incurred (year ended December 31, 2020 - tax income of $5.7 million). The tax expense increased resulting from higher taxable profits in the year ended December 31, 2021, compared to the year ended December 31, 2020, resulting in PPT increasing by $289.3 million. This was offset against a decrease in deferred tax income from $170.5 million recognized in the year ended December 31, 2020, to $34.5 million in the year ended December 31, 2021. This decrease has mainly arisen from a write off of a deferred tax asset of $38.0 million in the year ended December 31, 2021, and a decrease in deferred tax income recognized as the 2020 amount included $145.0 million resulting from the impairment of oil and gas assets in the year ended December 31, 2020.
6. The year ended December 31, 2020, includes the proportionate share of Prime's net income, prorated from January 14, 2020, the date the acquisition was completed.
7. Adjustment relating to the fair value of financial and physical oil contracts included in the investment value of Prime acquisition that have now been fully settled in the year ended December 31, 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Supplementary information: Prime's Statement of Cash Flows

For the years ended	December 31, 2021	December 31, 2020
Profit before tax	901,615	437,923
Adjustments for:		
Depreciation, depletion and amortization	303,507	447,906
Impairment	-	289,482
Finance costs, net	99,962	63,638
Taxes paid	(494,534)	(164,776)
Change in provisions	306,935	(471)
Interest expense paid	(44,889)	(110,678)
Cash generated in operating activities before working capital	1,072,596	963,024
Changes in working capital		
Changes in trade receivables	(155,273)	57,351
Changes in over/underlift balances	(32,082)	(53,051)
Changes in other working capital balances	168,109	83,055
Total changes in working capital	(19,246)	87,355
Net cash generated in operating activities	1,053,350	1,050,379
Expenditures on oil and gas properties	(50,521)	(25,334)
Interest income received	417	1,262
Net cash used in investing activities	(50,104)	(24,072)
Payment of dividends to shareholders	(400,000)	(400,000)
Repayment of third-party borrowings	(436,018)	(522,193)
Drawdown of PXF Facility	150,000	-
Proceeds from staff loans	95	1,497
Payment on settlement of derivative financial instruments	(30,587)	(14,618)
Net cash used in financing activities	(716,510)	(935,314)
Foreign exchange variation on cash and cash equivalents	(213)	(57)
Total cash flow	286,523	90,936
Cash and cash equivalents, beginning of the year	231,355	140,419
Cash and cash equivalents, end of the year	517,878	231,355

7. Equity investments in associates:

The Company currently holds the following equity investments in associates:

	Africa Energy Corp.	Eco (Atlantic) Oil and Gas Ltd	Impact Oil and Gas Ltd	Total
Ownership at December 31, 2021	19.8%	19.9%	30.9%	
Shares held at December 31, 2021	276,982,414	39,898,763	255,629,487	
At January 1, 2020	17,882	12,022	33,659	**63,563**
Share of (loss)/ income from equity investments	(1,285)	900	11,861	**11,476**
Additional investment through private placements and subscription agreements	11,765	-	11,969	**23,734**
Prior year adjustment [1]	(2,466)	-	-	**(2,466)**
Gain on dilution of equity investment	19,905	-	-	**19,905**
At December 31, 2020	45,801	12,922	57,489	**116,212**
Share of income/ (loss) from equity investments	4,389	(520)	(1,374)	**2,495**
Additional investment through private placement	-	1,981	-	**1,981**
At December 31, 2021	50,190	14,383	56,115	**120,688**

1. This adjustment relates to a 2018 dilution loss.

In the year ended December 31, 2021, the Company recognized a total income of $2.5 million (year ended December 31, 2020 – income of $11.5 million).

As at December 31, 2021, the Company has determined that there are no indicators of impairment for any of its equity investments in associates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

A. Africa Energy Corp. ("Africa Energy"):

Africa Energy holds participating interests in exploration blocks located offshore South Africa and offshore Namibia.

In the year ended December 31, 2021, the Company recognized an income of $4.4 million related to its investment in Africa Energy (year ended December 31, 2020 – losses of $1.3 million). This income was primarily driven by a gain on the revaluation of Africa Energy's investment in Block 11B/12B, due to the recent increase in forward oil prices and gas prices.

In the year ended December 31, 2021, the Company's ownership interest in Africa Energy decreased from 19.9% to 19.8% due to the issue of shares in which the Company did not participate.

In the year ended December 31, 2020, Africa Energy completed two private placements in which the Company participated, investing $11.8 million. On November 12, 2020, Africa Energy closed the equity issue common shares to Impact pursuant to the terms of a subscription agreement (the "Subscription Agreement") between Africa Energy and Impact dated August 24, 2020. The Subscription Agreement decreased the Company's ownership interest in Africa Energy from approximately 34.5% at January 1, 2020, to approximately 19.9% at December 31, 2020. Due to the decrease in the Company's investment in Africa Energy, the Company recognized a dilution gain of $19.9 million.

As at December 31, 2021 the estimated fair value of the Company's investment in Africa Energy is $54.3 million (as at December 31, 2020 - $87.0 million).

The following table summarizes Africa Energy's financial information for the years ended December 31, 2021, and December 31, 2020. The Company is not aware of any material changes to the financial information.

Balance Sheet

As at	December 31, 2021	December 31, 2020
Cash and cash equivalents included in current assets	11,783	19,643
Other current assets	362	322
Non-current assets [(1)]	242,936	212,550
Current liabilities	(1,594)	(1,785)
Net assets of Africa Energy	253,487	230,730
Percentage ownership	19.8%	19.9%
Proportionate share of Africa Energy's net assets	50,190	45,801

Statement of Net profit/ (loss) and comprehensive profit/ (loss) from continuing operations

For the years ended	December 31, 2021	December 31, 2020
Finance income	61	150
Net profit/ (loss) and comprehensive profit/ (loss) from continuing operations	22,169	(4,268)
Net profit/ (loss) and comprehensive profit/ (loss)	22,169	(4,268)
Proportionate share of Africa Energy's net profit/ (loss) [(2)]	4,389	(1,285)

1. As at December 31, 2021, the carrying value of non-current assets included a fair value adjustment of $14.6 million (as at December 31, 2020 - $(11.5) million).
2. In the years ended December 31, 2021, and December 31, 2020, the Company's ownership in Africa Energy changed from 19.9% to 19.8% and from 34.5% to 19.9% respectively which impacted the Company's share of net profit/ (loss).

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

Eco is an oil and gas exploration company with interests in Guyana and Namibia.

In the year ended December 31, 2021, the Company recognized a loss of $0.5 million relating to its investment in Eco (year ended December 31, 2020 – income of $0.9 million).

On July 9, 2021, Eco completed a private placement, in which the Company participated, investing approximately $2.0 million, acquiring 5,945,913 shares in Eco at a price of 0.41 CAD. This increased the Company's ownership in Eco from 18.4% to 19.9%.

As at December 31, 2021, the estimated fair value of the Company's investment in Eco is $11.0 million (as at December 31, 2020 - $10.7 million).

The following tables summarize Eco's financial information for the years ended December 31, 2021, and December 31, 2020. The Company is not aware of any material changes to the financial information.

Balance Sheet

As at	December 31, 2021	December 31, 2020
Cash and cash equivalents included in current assets	6,221	17,193
Other current assets	465	229
Non-current assets [1]	68,833	53,350
Current liabilities	(626)	(471)
Non-current liabilities	(2,617)	-
Net assets of Eco	72,276	70,301
Percentage ownership [2]	19.9%	18.4%
Proportionate share of Eco's net assets	14,383	12,923

Statement of Net loss and comprehensive loss from continuing operations

For the years ended	December 31, 2021	December 31, 2020
Finance income	18	167
Net loss and comprehensive loss from continuing operations	(2,796)	(154)
Net loss and comprehensive loss	(2,796)	(154)
Proportionate share of Eco's net income/(loss) [3]	(520)	900

1. As at December 31, 2021, the carrying value of non-current assets included a fair value adjustment of $55.9 million (as at December 31, 2020 - $32.7 million).
2. In the year ended December 31, 2021, the Company's ownership in Eco changed from 18.4% to 19.9%.
3. In the years ended December 31, 2021, and December 31, 2020, exploration expenditure has been excluded when calculating the Company's proportionate share of the income/ (loss) in order to align accounting policies between the associate and the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

C. Impact Oil and Gas Ltd ("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.

In the year ended December 31, 2021, the Company recognized losses of $1.4 million related to its investment in Impact (year ended December 31, 2020 – income of $11.9 million).

The following tables summarize Impact's financial information for the years ended December 31, 2021, and December 31, 2020. The Company is not aware of any material changes to the financial information.

Balance Sheet

As at	December 31, 2021	December 31, 2020
Cash and cash equivalents included in current assets	40,034	51,512
Other current assets	646	79,921
Non-current assets (1)	142,992	58,735
Current liabilities	(2,069)	(4,121)
Non-current liabilities	-	-
Net assets of Impact	181,603	186,047
Percentage ownership	30.9%	30.9%
Proportionate share of Impact's net assets	56,115	57,489

Statement of Net (loss)/ income and comprehensive (loss)/ income from continuing operations

For the years ended	December 31, 2021	December 31, 2020
Finance income	624	39,978
Net (loss)/ income and comprehensive (loss)/ income from continuing operations	(4,447)	33,143
Net (loss)/ income and comprehensive (loss)/ income	(4,447)	33,143
Proportionate share of Impact's net (loss)/ income	(1,374)	11,861

1. As at December 31, 2021, the carrying value of non-current assets included a fair value adjustment of $35.7 million (as at December 31, 2020 - $36.0 million).

8. Intangible exploration assets:

	Note	December 31, 2021	December 31, 2020
Net carrying amount, beginning of the year		190,396	411,669
Intangible exploration expenditures	A	3,655	20,802
Reversal of oil and gas provisions	A	-	(26,475)
Impairment of intangible exploration assets	B	-	(215,600)
Net carrying amount, end of the year		194,051	190,396

A. Intangible exploration expenditures:

As at December 31, 2021, $194.1 million of expenditures have been capitalized as intangible exploration assets (as at December 31, 2020 - $190.4 million). These expenditures relate to the Company's share of exploration and appraisal stage projects which are pending the determination of 2P petroleum reserves.

As at December 31, 2021, the carrying amount of the Company's intangible exploration assets for its 25% interest in the Project Oil Kenya CGU (Block 10BB and 13T) was $189.6 million (as at December 31, 2020 - $186.3 million). In the year ended December 31, 2021, expenditures of $2.0 million were incurred progressing the field development plan ("FDP") to submit an updated FDP in December 2021 (year ended December 31, 2020 - $11.8 million).

As at December 31, 2021, the carrying amount of Block 10BA in Kenya is nil (as at December 31, 2020 - nil).

As at December 31, 2021, the carrying amount of the Company's intangible exploration assets for its 20% participating interest in the Block 3B/4B Exploration Right, located in South Africa, was $4.5 million (as at December 31, 2020 - $4.1 million). In the year ended December 31, 2021, expenditures of $0.4 million were incurred reprocessing the 2D and 3D seismic (year ended December 31, 2020 - $4.1 million).

At December 31, 2021, 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.

In the year ended December 31, 2021, the Company capitalized $1.3 million of general and administrative expenses related to intangible exploration assets (year ended December 31, 2020 - $5.1 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 CGU level.

Due to a reduction in the oil price, and the global pandemic in the first quarter of 2020, the Company determined that an impairment test was required for the Project Oil Kenya CGU (Block 10BB and 13T) as at March 31, 2020, using a long term price of $54/bbl less a quality discount of $3/bbl. The Company used fair value less costs of disposal to determine the recoverable amount of Block 10BB and 13T. The results of the impairment test indicated that the carrying value of Block 10BB and 13T exceeded the recoverable amount and the Company recognized an impairment loss of $137.8 million. The Company used a market consensus Brent forward curve at March 31, 2020. The post-tax discount rate increased to 17%, reflecting market challenges and risks.

As at March 31, 2020, a 1% increase in the assumed discount rate would have resulted in an additional impairment expense of $27.5 million (December 31, 2019 - $41.0 million). Using a discount rate of 13% at March 31, 2020 (December 31, 2019 – 12%), no impairment would have been required as the recoverable amount would have exceeded the carrying amount by $5.0 million (December 31, 2019 - $15.0 million).

The future development of the Company's other Kenyan block, 10BA, would likely rely on infrastructure of Blocks 10BB and 13T. The impairment in Block 10BB and 13T as at March 31, 2020, was an indicator that Block 10BA may be impaired. The block has considerable exploration potential however the work program was minimal for 2020, and partner support was affected by the global pandemic in the first quarter. The block's economic feasibility in the environment is significantly reduced and an impairment loss of $77.8 million was recorded in the year.

As at December 31, 2021, the Company's intangible exploration assets had no indicators of impairment.

C. Reversal of impairment of intangible exploration assets:

A reversal of impairment is considered when there is any indication that an impairment loss recognized in prior years for an asset may no longer exist or may have decreased.

At December 31, 2021, the Company determined that due to an increase in the oil price and a reduction of the impact from the global pandemic to the wider global market since 2020, that it was appropriate to consider if there had been a reversal of the impairment recognized in 2020.

The Company used fair value less costs of disposal using a discounted cash flow method to determine the recoverable amount of Block 10BB and 13T (CGU level). The discounted cash flow for the project was analyzed to determine if there was sufficient evidence that an impairment reversal was appropriate. The results of the impairment reversal test indicated that the recoverable amount was not in excess of the carrying value.

The key assumptions included in the test were the quantity of contingent resources, future commodity prices, production forecasts, operating expenses, development costs, the timing of FID and the discount rate.

A market-based oil price forecast was used which contained a forward curve plus a long-term oil price of $67/bbl less a quality discount of $3/bbl. The oil price is inherently uncertain as the price is often influenced by global events that are unlikely to be foreseen ahead of the event.

A discount rate of 18% was used in the test. The discount rate is uncertain as it contains judgements about the risk of investment decisions in Kenya in a global market still being affected by the pandemic and the changing landscape of the oil industry.

At December 31, 2021, a 1% decrease in the assumed discount rate would result in a potential reversal of impairment of $17.1 million. A 5% increase in the oil prices used would result in a potential reversal of impairment of $14.6 million.

9. Accounts payable and accrued liabilities:

As at	December 31, 2021	December 31, 2020
Joint venture payables and other provisions	2,865	9,677
Administrative accruals and other payables	784	1,495
	3,649	11,172

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

10. Debt:

As at	December 31, 2021	December 31, 2020
Balance, beginning of the year	141,000	-
Drawdown of Term Loan	-	250,000
Repayment of Term Loan	(141,000)	(109,000)
Drawdown of Corporate Facility	98,000	-
Repayment of Corporate Facility	(98,000)	-
Balance, end of the year	-	141,000
Short-term	-	-
Long-term	-	141,000

The Term Loan was drawn on January 14, 2020, to part fund the acquisition of Prime and had a duration of two years. The loan was subject to a fixed interest rate of 15%, accruing monthly, and was not subject to any debt covenants. On December 31, 2020, the outstanding loan was $141.0 million. Repayments of $43.0 million were made during the year reducing the loan to $98.0 million on July 30, 2021, when the loan was repaid in full with the proceeds of the new Corporate Facility.

On May 13, 2021, the Company agreed a new Corporate Facility for an amount up to $150.0 million with a three-year term, with $130.0 million committed at that time. Post signing, the facility amount and commitments increased to $160.0 million ("Corporate Facility"). Completion occurred on July 16, 2021. On July 30, 2021, $98.0 million was drawn down under the Corporate Facility to repay the Term Loan in full. An additional $62.0 million could be drawn until May 12, 2022, subject to the satisfaction of certain covenants. The Facility was used to repay the Term Loan and was also available for general corporate purposes. The repayments are calculated based on the amount of dividends received from Prime, while ensuring the Company preserves a sufficient minimum cash balance to conduct operations. The principal amount of the Corporate Facility, prior to the amendment entered into on January 28, 2022, was not exceed $75.0 million on December 31, 2022, $60.0 million by June 30, 2023, and $50.0 million by December 31, 2023.

This loan carries interests of 1 month-Libor plus a margin of 6.5% in the first year, 7.0% in the second year and 7.5% in the third year. If the Company makes a prepayment of the Corporate Facility prior to May 12, 2022 (unless the repayment is made from a dividend received from Prime), a make whole premium on the amount prepaid is payable at LIBOR+6.5%. The loan is subject to financial and liquidity covenants. The Company has been in compliance with the covenants in the year ended December 31, 2021.

The Company provided security in respect of the Corporate Facility mainly in the form of share pledges, over the shares of Petrovida (which holds 50% of Prime), Africa Energy, Eco and Impact owned by the Company and a charge over the bank account into which the Prime dividends are paid. The security over the shares in Africa Energy, Eco and Impact were released in the amendment to the facility on January 28, 2022.

The loan repayments are calculated to be protective of the Company's liquidity position. Prior to maturity, repayments under the loan are made in the month a dividend is received from Prime. The Company's loan repayments reduce commensurately with any reduction in dividends from Prime. If drawn, the loan principal would be repaid by the lesser of 100% of the dividends received from Prime, and of an amount that ensures the Company hold a minimum projected consolidated cash balance in the six months following the repayment.

In September and November 2021, two dividends were received totaling $125.0 million from Prime and the Company applied the amounts received to repay the facility in full.

On January 28, 2022, the Company agreed a number of amendments to the Corporate Facility with the existing lenders. The available amount has increased to $100.0 million from $62.0 million, and the availability period has been extended to December 31, 2022, from May 13, 2022. The principal amounts, if drawn, may not exceed $80.0 million by June 30, 2023, and $50.0 million by February 29, 2024. The maturity date, the loan purpose and interest margins are unchanged. The lenders have also waived certain conditions in support of the Company's plans to implement a shareholder returns program and released their security over the Company's shares in Africa Energy, Eco and Impact.

11. Share capital:

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

B. Issued:

	December 31, 2021		December 31, 2020	
	Shares	Amount	Shares	Amount
Balance, beginning of the year	471,960,472	1,306,476	471,214,419	1,305,953
Settlement of Performance Share Units	515,445	508	128,896	88
Settlement of Restricted Share Units	882,104	939	617,157	435
Exercise of Share Options	1,297,334	1,204	-	-
Balance, end of the year	474,655,355	1,309,127	471,960,472	1,306,476

12. 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 favor of the Company with regards to the CIT assessments, which amounts to $21.0 million, plus interest and penalties. However, the TAT ruled in favor of the KRA with regards to the VAT assessments which amounts to $24.6 million plus interest. 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 appealed the CIT assessment. The Court is expected to meet in Q1 2022, where the Judge is expected to give their judgement. The Company expects it is more likely than not that it will be successful in upholding the CIT and defending the VAT assessments and therefore no liability has been recognized in the financial statements. If the High Court rules against the Company, the Company will consider the option to appeal, factoring in the amount of any financial security required as part of the appeals process. An unfavorable decision could have a negative impact on the plan for development of the Company's Kenyan Intangible Exploration Assets.

B. Investment in Prime:

Under the Prime Sale and Purchase Agreement completed on January 14, 2020, a deferred payment of $118.0 million, subject to adjustment, may be due to the seller contingent upon the timing and ultimate OML 127 tract participation in the Agbami field. The signing of the Securitization Agreement by Prime has led to the Company reassessing its view of the likelihood of making a contingent consideration payment to the seller. The signing of the Securitization Agreement by Prime does not constitute a redetermination of the tract participation, therefore does not trigger the payment of a contingent consideration under the Sale and Purchase Agreement but, at the Company's discretion, could trigger discussions with the seller. The outcome of this process is uncertain. The Company has therefore recorded $32.0 million as contingent consideration as the best estimate of the most likely outcome and increased the Company's investment in Prime.

C. Kenya license commitments:

Under the terms of the Block 10BA PSC, 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 to April 26, 2022, allowing time for the joint venture to include and align the Block 10BA work program with the proposed FDP for Blocks 10BB and 13T. 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 or 45 square kilometers of 3D seismic. Additionally, the Company and its partners are obligated to drill one exploration well. The total minimum gross expenditure obligation for the second additional exploration period is $19.0 million. The JV partners have not provided any Letters of credit or guarantees for this commitment. The Company has presented a plan for exploration and appraisal in Block 10BA in the FDP. This drilling plan was formally submitted in December 2021. At December 31, 2021, the Company's working interest in Block 10BA was 25%.

The Company expects the three licenses to be renewed once the GoK has completed its review of the FDP submission.

D. South Africa license commitments:

Block 3B/4B is currently in the Initial Period, having a term of three years which will expire in March 26, 2022. The Company expects to renew the license before expiry and consider the risk of non-renewal to be low. The work commitments during this Initial Period for Block 3B/4B consist of regional subsurface evaluation and mapping, petrophysical analysis of nearby wells, basin modelling, prospect maturation and prospect ranking, leading to recommendations on future investments. The total minimum gross expenditure obligation for the Initial Period is 11.4 million Rand (approximately $0.7 million), which has been met. At December 31, 2021, the Company's WI in Block 3B/4B was 20%.

13. Finance income and expense:

Finance income and expense for the years ended December 31, 2021, and December 31, 2020, is comprised of the following:

For the years ended	December 31, 2021	December 31, 2020
Interest and other income	144	1,102
Interest expense and bank charges	(18,269)	(29,335)
Foreign exchange loss	(7)	(14)
Finance income	144	1,102
Finance expense	(18,276)	(29,349)

Interest expense and bank charges includes interest incurred on the Term Loan and the Corporate Facility (see note 10) and commitment and arrangement fees associated with these financing arrangements.

14. Net income/(loss) per share:

For the years ended	December 31, 2021			December 31, 2020		
		Weighted Average			Weighted Average	
	Net income	Number of shares	Per share amounts	Net loss	Number of shares	Per share amounts
Basic earnings per share						
Net income/(loss) attributable to common shareholders	190,722	473,332,153	0.40	(17,614)	471,792,153	(0.04)
Effect of dilutive securities	-	4,029,133	-	-	-	-
Dilutive income/(loss) per share	190,722	477,361,286	0.40	(17,614)	471,792,153	(0.04)

In the year ended December 31, 2021, the Company used an average market price of CAD$1.47 per share to calculate the dilutive effect of share purchase options (year ended December 31, 2020 – CAD $1.10 per share). In the year ended December 31, 2021, 22,616 options and 7,795,512 PSU's were anti-dilutive and were not included in the calculation of dilutive income/(loss) per share (year ended December 31, 2020 - 9,618,000 options, 7,615,412 PSUs and 3,189,469 RSUs were anti-dilutive).

15. Share-based compensation:

In the year ended December 31, 2021, the Company recognized a total of $6.3 million in share-based compensation expense relating to the Long-Term Incentive Plan ("LTIP") and Stock Option Plan (year ended December 31, 2020 – $3.0 million).

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 Board no longer grants share purchase options under the Plan and instead only awards PSUs to executives and staff.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

	December 31, 2021		December 31, 2020	
		Weighted average		Weighted average
	Number of options	Exercise price (CAD$)	Number of options	Exercise price (CAD$)
Outstanding, beginning of the year	9,618,000	1.31	13,640,500	1.75
Granted	22,616	1.61	2,061,000	1.21
Expired	(1,233,000)	2.12	(6,083,500)	2.26
Forfeited	(232,333)	1.49	-	-
Exercised	(1,297,333)	1.17	-	-
Balance, end of the year	6,877,950	1.18	9,618,000	1.31

In the year ended December 31, 2021, 1.2 million share purchase options expired (year ended December 31, 2020 – 6.1 million). In the year ended December 31, 2021, 1.3 million share purchase options were exercised (year ended December 31, 2020 - nil).

In the years ended December 31, 2021, and December 31, 2020, the fair value of each option granted by the Company were estimated on the date of grant using the Black-Scholes options pricing model and expensed over the vesting period of the options.

For the years ended	December 31, 2021	December 31, 2020
Number of options granted	22,616	2,061,000
Fair value of options granted (CAD$ per option)	0.72	0.38
Risk-free interest rate (%)	0.01	0.26
Expected life (years)	3.00	3.00
Expected volatility (%)	46.5	49.0
Expected dividend yield	-	-

The following table summarizes information regarding the Company's share purchase options outstanding and exercisable at December 31, 2021:

Weighted Average Exercise price (CAD$/share)	Number outstanding	Number exercisable	Weighted average remaining contractual life in years
1.38	737,000	737,000	0.97
1.06	1,301,000	1,301,000	1.96
1.06	50,000	50,000	2.02
1.13	210,000	210,000	2.62
1.22	467,000	467,000	2.87
1.15	2,270,333	2,256,000	2.95
1.21	1,820,000	1,283,333	3.95
1.61	22,616	7,539	4.62

All options granted vest over a two-year period, of which one-third vest immediately, and expire five years after the grant date. In the year ended December 31, 2021, the Company recognized $0.4 million as a share-based compensation expense (year ended December 31, 2020 - $0.7 million), related to share purchase options.

B. Performance share units ("PSUs"):

On April 19, 2016, the shareholders of the Company approved a new LTIP. Under the terms of the LTIP, eligible plan participants may be granted PSUs and RSUs. The LTIP provides that an aggregate number of common shares which may be reserved for issuance shall not exceed 4% of the issued and outstanding common shares of the Company. PSUs are notional share instruments which track the value of the common shares and are subject to non-market performance conditions related to key strategic, financial and operational milestones. PSUs cliff vest three years from the date of grant, at which time the Board of Directors will assign a performance multiple ranging from nil to 200% to determine the ultimate vested number of PSUs. PSUs are awarded to executives and from 2022 will be awarded to staff, replacing share options. They may be settled in shares issued from treasury or cash, at the discretion of the Board of Directors.

The Company's PSUs outstanding are as follows:

	December 31, 2021	December 31, 2020
	Number of PSUs	Number of PSUs
Outstanding, beginning of the year	7,615,412	5,319,112
Granted	2,331,600	3,144,300
Cancelled	(1,275,840)	(590,208)
Vested	(875,660)	(257,792)
Balance, end of the year	7,795,512	7,615,412

In the year ended December 31, 2021, 2,331,600 PSUs were granted (year ended December 31, 2020 – 3,114,300).

In May 2021, 875,660 PSUs vested in which 360,215 PSUs were settled for a cash payment of $0.5 million and the remaining were settled via the issuance of common shares of the Company. In March 2020, 257,792 PSUs vested in which half were settled for a cash payment of $0.1 million and the other half were settled via the issuance of common shares of the Company.

The Company accounts for PSUs as share-based awards whereby the estimated fair value of the grant is expensed evenly throughout the remaining vesting period. In the year ended December 31, 2021, the Company recognized $3.9 million in share-based compensation relating to the PSUs (year ended December 31, 2020 - $1.4 million). These liabilities are revalued quarterly. The PSUs are considered to be contingently issuable and therefore have no dilutive effect on net income/ (loss) per share.

C. Restricted share units ("RSUs"):

RSUs granted to Non-Executive Directors cliff vest three years from the date of grant. RSUs granted to all other eligible plan participants vest over three years (1/3 on the first, second and third anniversary of grant). The estimated fair value of RSUs are expensed evenly throughout the remaining vesting period. RSUs are no longer awarded to executives, and only PSU's are awarded. RSUs may be settled in shares issued from treasury or cash, at the discretion of the Board of Directors.

The Company's RSUs outstanding are as follows:

	December 31, 2021	December 31, 2020
	Number of RSUs	Number of RSUs
Outstanding, beginning of the year	3,189,469	2,602,593
Granted	605,000	1,575,500
Vested	(1,126,134)	(988,624)
Balance, end of the year	2,668,335	3,189,469

In May 2021, 605,000 RSUs were granted to Non-Executive Directors only (year ended December 31, 2020 – 1,575,500). RSUs were not granted to other plan participants in 2021 to align with the Company's revised compensation strategy of granting PSUs to executive management. In May 2021, 1,020,233 RSUs vested with 244,033 being settled for a cash payment of $0.3 million and the remaining were settled via the issuance of common shares of the Company. In November 2021, 105,904 RSUs vested and were settled in shares.

In March 2020, 977,958 RSUs vested in which half were settled for a cash payment of $0.3 million and the other half were settled via the issuance of common shares of the Company. In November 2020, 10,666 RSUs vested and were settled in shares. Additionally, during March 2020, 235,024 RSU's issued to Non-Executive Directors vested and were settled via issuance of an equal number of common shares in both periods.

The Company accounts for RSUs as share-based awards whereby the estimated fair value of the grant is expensed evenly throughout the remaining vesting period. In the year ended December 31, 2021, the Company recognized $2.0 million in share-based compensation relating to the RSUs (year ended December 31, 2020 - $0.9 million). These liabilities are revalued quarterly.

16. Capital management:

The Company's objective when managing capital structure is to maintain balance sheet strength in order to ensure the Company's strategic exploration, appraisal and business development objectives are met while providing an appropriate return to shareholders relative to the risk of the Company's underlying assets.

The Company manages its capital structure and makes adjustments to it based on changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue additional shares, issue debt, execute working interest farm-out arrangements and revise its capital expenditures program. In addition, the Company manages its cash and cash equivalents balances based on forecasted capital outlays and foreign exchange risks in order to ensure that the risk of negative foreign exchange effects are minimized while ensuring that interest yields on account balances are appropriate. The Company considers its capital structure to include shareholder's equity, debt and working capital. The Company does not have externally imposed capital requirements.

17. Related party transactions:

A. Transactions with 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. Africa Energy completed an additional private placement on September 30, 2020, in which the Company participated, investing $6.8 million, acquiring 20,000,000 shares, of a total of 88,667,000 shares issued. As at December 31, 2021, the Company's ownership interest in Africa Energy is approximately 19.8%.

Services Agreements:

For the years ended	Service provider	Service provided	December 31, 2021	December 31, 2020
General Management and Service Agreement	AOC to Africa Energy	Administrative services provided to Africa Energy.	57	102
Consulting Services Agreement [1]	Africa Energy to AOC	Technical and administrative services relating to project evaluation	-	300
General Technical and Administrative Service Agreement [2]	Africa Energy to AOSAC	Technical and administrative services relating to its operating interest in Block 3B/4B, South Africa.	384	192

1. Expired June 30, 2020
2. Contract date July 1, 2020

As at December 31, 2021, Africa Energy owed the Company nil (as at December 31, 2020 - nil).

B. Transactions with Eco:

On June 28, 2021, the Company subscribed for 5,945,913 new common shares at a price of CAD$0.41 per new common share totaling $2.0 million and was granted the same number of warrants to acquire common shares at the same price over a two-year period. This increased the Company's interest in Eco from 18.4% to 19.9%.

C. Transactions with Impact:

On February 14, 2020, Impact completed a private placement, in which the Company participated, investing approximately $12.0 million, acquiring 45,000,000 shares, increasing the Company's ownership interest in Impact from approximately 29.9% at December 31, 2019, to approximately 30.9% at December 31, 2020 and December 31, 2021.

D. Remuneration of Directors and Senior Management:

Remuneration of Non-Executive Directors and Senior Management includes all amounts earned and awarded to the Company's Board of Directors and Senior Management. Senior Management includes the Company's President and Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and Vice President of Exploration.

Directors' fees include Board and Committee Chair retainers. Management's short-term wages and benefits include salary, benefits, bonuses and any other cash-based compensation earned or awarded during the year. Share-based compensation includes expenses related to the Company's share purchase option plan as well as the Long-Term Incentive Plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the years ended	December 31, 2021	December 31, 2020
Non-Executive Directors' fees	376	365
Non-Executive Directors' share-based compensation	888	742
Managements' short-term wages and benefits	3,074	2,527
Managements' share-based compensation	3,385	844
	7,723	4,478

18. Subsidiaries:

The Company has the following wholly owned subsidiaries; Africa Oil Holdings B.V. (Netherlands), Africa Oil Turkana B.V. (Netherlands), Africa Oil Kenya B.V. (Netherlands), Africa Oil Ethiopia B.V (Netherlands), Africa Oil Turkana Ltd. (Kenya), Centric Energy Holdings (Barbados) Inc. (Barbados), Centric Energy Kenya (Barbados) Inc. (Barbados), Centric Energy (Kenya) Ltd. (Kenya), PetroVida Holding B.V (Netherlands), Africa Oil UK Limited (United Kingdom) and Africa Oil SA Corp. (British Columbia).

19. 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 December 31, 2021, the Company held $0.9 million (as at December 31, 2020 - $2.6 million) of cash in financial institutions outside of Canada and the UK 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 and development phase, require sufficient cash in order to fulfill their work commitments in accordance with contractual obligations, deliver stated shareholder returns, and to be able to potentially acquire strategic oil and gas assets.

The Company will potentially issue equity and debt 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's primary source of cash flow relates to dividends received from Prime. A significant reduction in or infrequent distributions, could have an adverse effect on the Company's ability to meet its commitments. The Company has senior members sitting on Prime's Supervisory Board and Audit Committee, monitoring cash forecasts and setting financial and risk management policies to manage Prime's dividend forecasts.

On July 16, 2021, the Company completed a new Corporate Facility for $160.0 million with a three-year term, of which $98.0 million was drawn on July 30, 2021, to repay its Term Loan, as described in note 10. The loan was fully repaid by November 30, 2021, and $62.0 million remained available for general corporate purposes. The loan repayments are calculated to be protective of the Company's liquidity position and if drawn, the Corporate Facility would be repaid from the proceeds of dividends received from Prime, while ensuring the Company preserves a sufficient minimum cash balance to conduct operations.

Post year end, on January 28, 2022, the Company agreed a number of amendments to the Corporate Facility, as described in note 10 and note 23. These amendments improve the Company's access to liquidity to fund operations and acquisitions as required.

The Company will also adjust the pace of its exploration and appraisal activities to manage its liquidity position. The existing cash balance, the undrawn amount of the Corporate Facility and expected dividends from its Investment in Prime, are sufficient to fund the Company's obligations as they become due.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The following table outlines the Company's contractual maturities of financial liabilities:

Contractual maturities of financial liabilities	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 4 years	Total contractual cash flows	Carrying amount
At December 31, 2021						
Trade payables	3,481	-	-	-	3,481	3,481
Lease liabilities	33	33	66	76	208	168
	3,514	33	66	76	3,689	3,649
At December 31, 2020						
Trade payables	10,487	-	-	-	10,487	10,487
Borrowings	10,575	10,575	141,764	-	162,914	141,000
Lease liabilities	387	96	196	77	756	685
	21,449	10,671	141,960	77	174,157	152,172

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:

The Corporate Facility has a variable interest rate, that is referenced to LIBOR and will expose the Company to interest rate risk over the term of the loan. The Financial Conduct Authority of the United Kingdom has announced that one month USD LIBOR (which the Corporate Facility applies) will cease to be provided by any administrator or no longer be representative after 30 June 2023. The Corporate Facility includes a provision to, among other things, negotiate in good faith with a view to agreeing a replacement benchmark in place of USD LIBOR from and including a date no later than 1 July 2022 (or such later dates as may be agreed between the Majority Lenders and the Parent (each as defined in the Corporate Facility), if USD LIBOR is still applied under the Corporate Facility as at 1 April 2022 (or such later dates as may be agreed between the Majority Lenders and the Parent).

iii. Commodity price risk:

The Company has an equity holding in Prime (see note 6), which has three producing fields OML127 and OML 130, both with significant levels of production. A change in commodity prices may affect the dividends received from this investment. Prime benefits from a robust oil price hedging program and the hedging policy requires hedging or forward selling between 50% and 70% of its forecast liftings on a rolling 12 month basis. These contracts are with counterparties including oil supermajors and commodity trading houses. The counterparties are part of groups with investment grade credit ratings.

iv. Share price risk:

The Company has shareholdings in Africa Energy and Eco, which are entities listed on Canadian and European Stock Exchanges. The share price of these investments can be volatile and a change in share price may affect the amount that the Company can realize for these investments.

20. Financial instruments:

As at December 31, 2021, and December 31, 2020, assets and liabilities 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 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 judgement 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.

21. Income Taxes:

The tax rate consists of the combined federal and provincial statutory tax rates for the Company for the years ended December 31, 2021, and December 31, 2020. Substantially all of the differences between actual income tax expense of nil and the expected Canadian federal and provincial statutory corporate income tax expense/ (recovery) related to losses not recognized.

The following table reconciles the expected tax expense/ (recovery) calculated at the Canadian statutory rate with the actual tax recovery.

For the years ended	December 31, 2021	December 31, 2020
Net profit/ (loss) and comprehensive profit/ (loss)	190,722	(17,614)
Combined federal and provincial statutory income tax rate	27.0%	24.0%
Expected tax expense/ (recovery)	51,495	(4,227)
Foreign rate differences	(1,041)	-
Permanent differences	288	-
Share-based compensation	499	606
Equity earnings	(62,994)	(57,978)
Non-taxable expense items	-	58,732
Unrecognized tax losses	11,753	2,867
Tax recovery	-	-

The analysis of the unrecognized deferred tax assets and liabilities is as follows:

	Intangible exploration assets	Operating Losses	Total
At January 1, 2020	44,720	(44,720)	-
Charged/ (credited) to the income statement	399	(399)	-
At December 31, 2020	45,119	(45,119)	-
(Charged/ (credited) to the income statement	1,081	(1,081)	-
At December 31, 2021	46,200	(46,200)	-

The Company has the following unrecognized deductible temporary differences:

As at	December 31, 2021	December 31, 2020
Unrecognized deductible temporary differences		
Capital assets	(565)	(282)
Unrealized loss on equity investments	25,757	28,252
Capital losses carried forward	12,896	12,896
Share-based compensation	7,910	4,040
Non-capital and operating losses carried forward	489,265	83,960
Charitable donations	2,808	5,052
	538,071	134,200

The Company has estimated non-capital losses carried forward of $84.0 million which expire from 2028 through 2039. The Company recognized deferred tax assets and liabilities associated with its investments in subsidiaries and associates to the extent that the temporary differences would reverse in the foreseeable future. The company has not recognized any withholding or other taxes on unremitted earnings as the company expects to repatriate these earnings free of tax.

22. Supplementary information:

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

For the years ended	December 31, 2021	December 31, 2020
Changes in non-cash working capital		
Accounts receivable and prepaid expenses	727	2,882
Accounts payable and accrued liabilities	(6,289)	(4,000)
	(5,562)	(1,118)
Relating to:		
Operating activities	168	3,901
Investing activities	(5,730)	(5,019)
Changes in non-cash working capital	(5,562)	(1,118)

The following tables provides a breakdown of net debt and the movements of net debt for each year:

As at	December 31, 2021	December 31, 2020
Cash and cash equivalents	58,885	40,474
Borrowings	-	(141,000)
Lease liabilities	(168)	(685)
Net debt	58,717	(101,211)
Cash and cash equivalents	58,885	40,474
Gross debt - fixed interest rates	(168)	(141,685)
Net debt	58,717	(101,211)

	Liabilities from financing activities			Other assets	
	Borrowings	Leases	Sub-total	Cash	Total
Net debt as at January 1, 2020	-	(3,266)	(3,266)	329,464	326,198
Cash flows	(141,000)	2,581	(138,419)	(288,990)	(427,409)
Net debt as at December 31, 2020	(141,000)	(685)	(141,685)	40,474	(101,211)
Cash flows	141,000	517	141,517	18,411	159,928
Net debt as at December 31, 2021	-	(168)	(168)	58,885	58,717

23. Subsequent events:

On January 28, 2022, the Company agreed a number of amendments to the Corporate Facility with the existing lenders. The available amount has increased to $100.0 million from $62.0 million, and the availability period has been extended to December 31, 2022, from May 13, 2022. The principal amounts drawn may not exceed $80.0 million by June 30, 2023, and $50.0 million by February 29, 2024. The maturity date of May 13, 2024, and interest margins are unchanged. The lenders have also waived certain conditions in support of the Company's plans to implement a shareholder returns program and released their security over the Company's shares in Africa Energy, Eco and Impact. Interest charges are unchanged with future drawn amounts incurring interest at rate of LIBOR plus a margin of: 6.5% until May 2022; 7.0% from May 2022 to May 2023; and 7.5% from May 2023 until maturity. The Corporate Facility can be utilized for general corporate purposes, subject to customary covenants.

On January 19, 2022, Eco purchased an additional 800,000 shares in JHI Associates Inc. ("JHI") in return for 1,200,000 new common shares in Eco, increasing its shareholding in JHI to 5,800,00 shares, representing approximately 7.35% of the issued common shares in JHI. Eco also retained a warrant to subscribe for a further 9,155,471 new common shares in JHI at an exercise price of $2.0 per share for a period of eighteen months. This has reduced the Company's share in Eco from 19.9% to 19.7%.

On February 8, 2022, Eco announced it has signed a definitive Share Purchase Agreement ("SPA") to acquire 100% of Azinam Group Limited ("AGL"), including AGL's entire offshore asset portfolio, in return for a 16.6% equity stake in the enlarged Group on completion of the acquisition. Eco will issue 40,170,474 shares reducing the Company's share in Eco to 16.4%. In addition to the shares issuance, AGL will be issued warrants over new common shares in Eco, exercisable only in case of a producible commercial discovery on Block 2B or Block 3B4B, as follows: 20,000,000 warrants exercisable at a price of CAD$1.00 per share during the twenty-four month period immediately following Completion, and 20,000,000 warrants exercisable at a price of CAD$1.50 per share during the thirty-six month period immediately following the Completion, such exercise dates to be extended in the event a well is not drilled on Block 2B or Block 3B4B, until such time as a well is drilled on either Block and a producible commercial discovery declared.

On February 24, 2022, Impact announced a major light oil discovery on Block 2913B, offshore Namibia. The Venus-1 exploration well spudded in December 2021 and the well was drilled to a total depth of 6,296 meters by the operator TotalEnergies. It encountered a high-quality, light oil-bearing sandstone reservoir of Lower Cretaceous age, with 86 meters of net oil pay. The Company has an indirect effective interest of approximately 6.2% to this block through its shareholding in Impact.

On February 28, 2022, the Company announced it will pay an annual dividend of $0.05 per share (approximately $25.0 million) payable semi-annually. The first payment will be made at the end of March 2022.

FORWARD-LOOKING STATEMENTS

Certain statements and information contained herein constitute "forward-looking information" (within the meaning of applicable Canadian securities legislation). Such statements and information (together, "forward-looking statements") relate to future events or the Company's future performance, business prospects or opportunities. All statements other than statements of historical fact may be forward-looking statements. Statements concerning proven and probable reserves and resource estimates may also be deemed to constitute forward-looking statements and reflect conclusions that are based on certain assumptions that the reserves and resources can be economically exploited. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "seek", "anticipate", "plan", "continue", "estimate", "expect, "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions) are not statements of historical fact and may be "forward-looking statements". Forward-looking statements involve known and unknown risks, ongoing uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

Although the Company believes that the expectations reflected by the forward-looking statements presented in this document are reasonable, the Company's forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to the Company about itself and the businesses in which it operates. Information used in developing forward-looking statements has been acquired from various sources, including third party consultants, suppliers and regulators, among others. Because actual results or outcomes could differ materially from those expressed in any forward-looking statements, investors should not place undue reliance on any such forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes will not occur. Some of these risks, uncertainties and other factors are similar to those faced by other oil and gas companies and some are unique to the Company.

No assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. The Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by applicable laws. These forward-looking statements involve risks and uncertainties relating to, among other things, changes in macro-economic conditions and their impact on operations, changes in oil prices, reservoir and production facility performance, hedging counterparty contractual performance, OPEC+ quota impact on production, results of exploration and development activities, cost overruns, uninsured risks, regulatory and fiscal changes, defects in title, claims and legal proceedings, access to financing on favourable terms, availability of materials and equipment, availability of skilled personnel, timeliness of government or other regulatory approvals, actual performance of facilities, joint venture partner underperformance, availability of financing on reasonable terms, availability of third party service providers, equipment and processes relative to specifications and expectations and unanticipated environmental, health and safety impacts on operations. Actual results may differ materially from those expressed or implied by such forwardlooking statements.

The Company's Annual Information Form for the year ended December 31, 2021 and other documents filed with securities regulatory authorities (accessible through the SEDAR website www.sedar.com) describe risks, material assumptions and other factors that could influence actual results and are incorporated herein by reference.

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