# Report to Shareholders

March 31, 2021

## MANAGEMENT’S DISCUSSION AND ANALYSIS

Management’s discussion and analysis (“MD&A”) focuses on significant factors that have affected Africa Oil Corp. and its subsidiaries (the “Company” or “AOC”) during the three months to March 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 Company’s unaudited consolidated financial statements for the three months ended March 31, 2021 and 2020 and should also be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2020 and 2019 and related notes thereto.

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

The effective date of this MD&A is May 13, 2021.

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 offshore Nigeria, and development assets in Kenya. The Company also has a portfolio of exploration assets in Guyana, Kenya, Namibia, Nigeria, South Africa and in the Senegal Guinea Bissau Joint Development Zone (“AGC”). The Company holds its interests through direct ownership interests in concessions and through its shareholdings in investee companies, including Prime Oil & Gas Coöperatief U.A. (“Prime”), Africa Energy Corp., Eco (Atlantic) Oil & Gas Ltd. and Impact Oil and Gas Ltd.

The Company has actively explored on multiple onshore exploration blocks in various under explored geological settings in East Africa, and has made numerous oil discoveries in the South Lokichar Basin (Blocks 10BB and 13T) located in the Tertiary Rift trend in Kenya. Activities are ongoing with the goal of sanctioning development of the oil fields in the South Lokichar Basin.

AOC’s long-term plan is to increase shareholder value through the acquisition, exploration, development, and production associated with oil and gas assets. The Company has delivered on its stated objective of acquiring high quality and free cash flowing producing assets and continues to consider acquisition and merger opportunities, focusing on Africa.

## REFINANCING

On May 13, 2021 the Company signed the Corporate Facility, with an amount up to $150.0 million and a three-year term, which can be drawn from the end of July 2021 until 12 May 2022. $130.0 million has been committed at signing and an uncommitted accordion feature allows for an additional $20.0 million. Completion is subject to customary conditions precedent and is expected to occur before the end of July 2021.

The purpose of the loan is to refinance the Term Loan, and general corporate purposes, and it will be repaid from the proceeds of dividends received from Prime, while ensuring the Company preserves a sufficient minimum cash balance to conduct operations. This loan has an interest rate of LIBOR plus a margin of 6.5% in the first year, 7% in the second year and 7.5% in the third year.

The initial $130.0 million of the commitments received, together with the existing cash balances will be used to repay the existing Term Loan in full, which is expected by the end of July 2021. Any amounts of the Corporate Facility available after the repayment of the existing Term Loan and the potential exercise of the uncommitted accordion would be used for general corporate purposes.

If the Company makes a repayment under the Corporate Facility prior to May 12, 2022, unless the repayment is made from a dividend received from Prime, a make whole provision is payable at LIBOR+6.5%. The security provided on the loan is similar to the existing Term Loan. The loan will be subject to financial and liquidity covenants.

The completion of this Corporate Facility will significantly reduce borrowing costs, strengthen the balance sheet and improve the Company's liquidity position.

## AFRICA OIL'S SHAREHOLDING AND WORKING INTERESTS

Please see 'Equity Investments' on page 7 for the information on the Company's equity interests in Africa Energy Corp., Eco (Atlantic) Oil & Gas Ltd. and Impact Oil and Gas Ltd. The Company's material interests, and material exploration partnership interests are summarized in the following table:

| Africa Oil's Shareholding in Prime Oil & Gas Coöperatief U.A. (50%) | | | | |
|---|---|---|---|---|
| **Country** | **Concession** | | **Working Interests** | |
| Nigeria | OML 127 | | Prime<br>Chevron Corporation<br>Famfa Oil | 8%<br>32%<br>60% (carried) |
| | OML 130 – PSA[1] | | Prime<br>Total<br>SAPETRO | 16%<br>24%<br>10% (carried) |
| **Africa Oil's Direct Working Interests[2]** | | | | |
| **Country** | **Concession** | **Gross Acreage (km²)** | **Working Interests** | |
| Kenya | 10BA | 11,760 | AOI<br>Total<br>Tullow (Operator) | 25%<br>25%<br>50% |
| | 10BB | 8,835 | AOI<br>Total<br>Tullow (Operator) | 25%<br>25%<br>50% |
| | 13T | 6,296 | AOI<br>Total<br>Tullow (Operator) | 25%<br>25%<br>50% |
| South Africa | 3B/4B | 17,581 | AOI (Operator)<br>Azinam<br>Ricocure (Pty) Ltd | 20%<br>20%<br>60% |

(1) 50% of the production from OML 130 is covered by a PSA, in which Prime owns a 32% Working Interest. Prime's net Working Interest in OML 130 is therefore 16%.

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

## PANDEMICS

Since the commencement of the COVID-19 pandemic we have witnessed an unprecedented level of market volatility, oil price volatility and a substantial reduction in the world oil demand due to the impact of pandemic. We have also seen a robust response by international oil producers led by the group of OPEC+ countries to manage supply and address the challenge of demand destruction. The market uncertainties also prompted some financial institutions to reduce their exposure to the oil and gas industry, which affected the ability of small and medium size oil and gas companies to raise funds. The oil producers' response has removed significant supply to the market. Inventories have started to reduce and markets rebalance. However, with the appearance of several virulent variants of COVID-19, there is no certainty as to the time it will take for business activity and travel to return to normal and for oil demand to recover to pre-pandemic levels.

The impact of COVID-19 on the Company is largely related to the potential impact on dividends received from its investment in Prime Oil and Gas Coöperatief U.A. ("Prime") that has two producing licences in Nigeria, OML 127 (contains the Agbami field) and OML 130 (contains the Akpo and Egina Fields). The operators of Prime's Nigerian assets, Total S.A. ("Total") and Chevron Corporation ("Chevron"), have implemented strict mitigation strategies to minimize the risk of COVID-19 impacting operations.

Nigeria, an OPEC member, directed producers to curtail oil field production in line with the OPEC+ quota agreement made in April 2020. Although this continued to curtail Egina's production in the first quarter of 2021, OPEC+ members have agreed in April 2021 to gradually increase the crude production quotas.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE UPDATE

The Company has continued its development of environmental, social and governance ("ESG") reporting and assurance procedures in accordance with the requirements of its ESG Policies and Standards of Operation. The Company is also working with its operating partners to define and agree appropriate ESG monitoring and reporting frameworks. This will support enhanced reporting and will also be used to aid operating partners in performance improvements.

In Nigeria, the Company has continued to work with Prime, to develop appropriate and timely ESG performance monitoring and reporting procedures. ESG performance data is being provided to the Company on a quarterly basis and full-year data will be set out in the 2021 ESG Performance Review and available on the Company's website. Operators have managed COVID-related disruption effectively to prevent business interruption.

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, aiming for submission to the Government of Kenya by the end of 2021. The project design is being revised to minimize production-related greenhouse gas emissions, a key focus and objective for the Company. In support of this, the draft Environmental and Social Impact Assessment ("ESIA") is being updated to reflect a revised project configuration.

As part of equity investment by the International Finance Corporation ("IFC") in the Company independent monitoring of compliance with IFC Performance Standards are undertaken on a regular basis. A monitoring report was completed during the fourth quarter of 2020 and no material adverse findings were reported.

Responding to, and anticipating, the challenges raised by increased shareholder and broader stakeholder focus on issues related to climate change and greenhouse gas emissions, the Company is working to develop an Energy Transition Plan. This Plan, to be finalized during the course of 2021, will set out the steps the Company will undertake over the short, medium and long-term to reduce and avoid emissions through effective design and operational management, and the steps taken to offset future emissions during oil production activities. The 2020 ESG Performance Review has been prepared to align with the recommendations of the Task Force on Climate-Related Disclosures ("TCFD") and the Company is planning to manage its activities in line with TCFD guidelines during 2021.

## Prime - Nigeria

On January 14, 2020, the Company acquired a 50% ownership interest in Prime for $519.5 million. BTG Pactual SARL B.V. ("BTG") continues to own the remaining 50% of Prime. The Company's 50% equity interest in Prime is accounted for as an Investment in Joint Venture under the equity method on the Balance Sheet. The Company records a 50% share of Prime's net income or loss in the period in the Statement of Net Income/Loss, as well as a 50% share of their Other Comprehensive Income/Loss. Dividends received are disclosed as a cash flow from investing activities in the Cash Flow Statement.

The main assets of Prime are an indirect 8% interest in Oil Mining Lease ("OML") 127 and an indirect 16% interest in OML 130. OML 127 is operated by affiliates of Chevron Corporation and covers part of the producing Agbami Field. OML 130 is operated by affiliates of Total S.A. and contains the producing Akpo and Egina Fields. The three fields in these two OMLs are located over 100 km offshore Nigeria. All three fields have high quality reservoirs and produce light to medium sweet crude oil through Floating Production and Storage ("FPSO") facilities. Akpo and Egina also produce natural gas that is exported onshore for sale. The Company accounts for its interest in Prime under the equity method.

On March 29, 2021, the Company reported its 2020 statement of reserves. Refer to the Advisory related to Oil and Gas section of this MD&A for important information including definitions. The statement of reserves, based on the Company's 50% ownership interest in Prime, showed December 31, 2020 working interest and net entitlement proved plus probable reserves ("2P") of 72.6 million of barrels of oil equivalent (MMboe) (December 31, 2019: 70.9 MMboe) and 85.8 MMboe (December 31, 2019: 84.9 MMboe), respectively. This is a working interest 2P reserves replacement ratio of 117% and is the result of strong reservoir performances with positive technical revisions and resource transfers of 12.2 MMboe, compared with a production of 10.5 MMboe net to Africa Oil's 50% shareholding in Prime. The Company's reserves are comprised of light and medium crude oil and conventional natural gas.

**Production Metrics – Barrels of oil equivalent per day ("boepd"):**

| | Unit | Three months to March 31, 2021 | Three months to March 31, 2020 | Year to December 31, 2020 |
|---|---|---|---|---|
| Total gross field production | boepd | 437,000 | 530,000 | 457,000 |
| **Net to AOC's 50% shareholding:** | | | | |
| Average daily working interest production | boepd | 27,700 | 33,400 | 28,700 |
| Average daily entitlement production | boepd | 30,300 | 43,000 | 33,900 |
| Oil/gas percentage split | % | 84%/16% | 88%/12% | 85%/15% |

**Financial Metrics**

| | Unit | Three months to March 31, 2021 | Three months to March 31, 2020 | Year to December 31, 2020 |
|---|---|---|---|---|
| Opex/boe(1) | $/boe | 6.4 | 5.8 | 5.2 |
| Free cash flow/boe(1) | $/boe | 33.3 | 63.4 | 54.2 |
| | | | | |
| **Net to AOC's 50% shareholding:** | | | | |
| Capex | $'m | 2.6 | 6.0 | 15.0 |
| Dividends paid | $'m | - | 87.5 | 200.0 |

(1) BOE is on a working interest basis

Production of the Egina field continued to be affected in the first quarter of 2021 by the imposition of OPEC+ quotas. These quotas limited production from Egina in the first quarter of 2021 to an average of approximately 152,000 bopd. In April 2021 OPEC+ members agreed to gradually increase the crude production quotas and production at Egina is now expected to exceed 160,000 bopd in the second quarter of 2021.

During the first quarter of 2021, Prime was allocated five oil liftings with total sales volume of approximately 4.9 million barrels or 2.4 million barrels net to Africa Oil's 50% shareholding. During the first quarter of 2020, Prime was allocated five oil liftings with total sales volume of approximately 4.8 million barrels or 2.4 million barrels net to Africa Oil's 50% shareholding.

During the three months ended March 31, 2021, Prime generated sales revenue of approximately $153.3 million net to AOC's shareholding ($179.5 million in the three months ended March 31, 2020[1]). Production of the Egina field was affected by the imposition of OPEC+ quotas in the first quarter of 2021. Sales revenue has reduced due to a lower realized oil price of $58.14/bbl in the first quarter of 2021 compared with $72.28/bbl during the first quarter of 2020.

The average operating costs in the first quarter of 2021 were $6.4 per boe, compared with the first quarter of 2020 average operating cost of $5.8 per boe. The increase is largely due to well intervention work on Akpo and Egina in the first quarter of 2021, which is a non-recurring expense.

Capital expenditure during the quarter, net to the Company's shareholding was $2.6 million (first quarter of March 31, 2020 was $6.0 million net to the Company's shareholding).

The Nigerian Government is in the process of finalizing the Petroleum Industry Bill ("PIB") which although not finalized could impact the terms that are applied to Prime's licenses. The fiscal regime to which Prime is subject will be adversely affected by the passing of the PIB as currently envisaged, which is expected to take place in 2021. A number of amendments to fiscal terms are currently envisaged and the impact of these is unclear until the PIB is in final form. One of the amendments may include the imposition of deep-water royalties on the Company's producing assets in Nigeria. Two installments of deep-water royalties have been paid by the operator of OML 127 to date. This payment is currently being contested by the PSA contractors.

Net to AOC's shareholding, Prime generated net cash from operating activities of $85.9 million (after working capital adjustment of $13.8 million), and $196.0 million (after working capital adjustment of $38.5 million) for the three months to March 31, 2020. Free cash flow (before financing activities and dividends) amounted to approximately $82.9 million net to AOC's shareholding compared with $190.0 million for the three months ended March 31, 2020.

No dividends have been paid in the first quarter of 2021. In the period from completion of the Prime acquisition to December 31, 2020 Prime distributed six dividends payments totaling $400 million gross with a net payment to the Company of $200 million related to its 50% interest.

Prime continues its hedging program in 2021 and has sold forward or hedged 95% of its 2021 cargoes at an average dated brent price of $56/bbl These contracts are with counterparties including oil supermajors and commodity trading houses. The counterparties are part of groups with investment grade credit ratings.

[1] In the three months to March 2020, Prime's sales revenue is prorated from January 14, 2020, the date the acquisition was completed.

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

Africa Oil Corp. has a 25% working interest in Blocks 10BB and 13T (excluding the Government's back-in rights) with Tullow Oil plc (50% and Operator) and Total S.A. (25%) holding the remaining interests.

The Company continues to work closely with its Joint Venture partners on preparing and submitting an updated Field Development Plan ("FDP") by the end of 2021. The revised development plan is being discussed between the JV partners and is expected to result in a more economically beneficial and sustainable development plan.

## Exploration Block 10BA - Kenya

Africa Oil Corp. has a 25% working interest in Block 10BA (subject to the Government's back-in rights) with Tullow Oil plc (50% and Operator) and Total S.A. (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 Field Development Plan for Blocks 10BB and 13T. The work commitments remain unchanged and include an exploratory well.

## Block 3B/4B - South Africa

Africa Oil Corp. 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. In 2021, the joint venture plans to reprocess 3D seismic data in the areas of interest.

## Tertiary Rift – Ethiopia

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

# EQUITY INVESTMENTS IN ASSOCIATES

The Company holds equity participations in three oil & 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 March 31, 2021:

| | Africa Energy | Eco | Impact [1] |
|---|---|---|---|
| Issued and Outstanding | 1,395,333,039 | 184,697,723 | 827,391,238 |
| Shares held by AOC at January 1, 2021 | 276,982,414 | 33,952,850 | 255,629,487 |
| Shares acquired in the period | - | - | - |
| Shares held by AOC at March 31, 2021 | 276,982,414 | 33,952,850 | 255,629,487 |
| AOC's holding (%) – March 31, 2021 | 19.9% | 18.4% | 30.9% |
| AOC's holding (%) – December 31, 2020 | 19.9% | 18.4% | 30.9% |
| Share price on March 31, 2021 | CAD $0.28 | CAD $0.40 | - |
| Exchange rate to USD on March 31, 2021 | 0.79 | 0.79 | - |

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

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

Impact is a private UK oil and gas exploration company with assets located offshore Namibia, South Africa and West Africa.

Impact, through a 2019 investment in Main Street 1549 (Proprietary) Limited, earned an indirect interest in Block 11B/12B, South Africa. In 2020 Africa Energy and Impact announced a consolidation of their indirect interest in the Block 11B/12B exploration right. Following completion, Impact holds 36.5% of the Common Shares in Africa Energy.

Impact, with partner Total, have plans to spud the Venus-1 deep water exploration well in Block 2913B, offshore Namibia by the end of 2021. The well will test a laterally extensive basin-floor fan prospect with large resource potential if successful.

*Africa Energy Corp. ("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 Petroleum License 37 in Namibia ("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 19.9% at March 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.

Africa Energy held a 90% participating interest in Block 2B. On April 20, 2021, Africa Energy closed a farmout transaction 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 is expected to spud in the third quarter of 2021. Africa Energy retains a 27.5% participating interest in Block 2B.

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

Eco holds working interests in four exploration blocks offshore Namibia and one exploration block offshore Guyana. The Company's ownership interest is approximately 18.4% at March 31, 2021.

In late 2019, Eco and partners announced two heavy oil discoveries in the Orinduik block offshore Guyana. Eco and partners are currently studying the feasibility of monetizing these discoveries and are reprocessing 3D seismic data to help highgrade deeper prospects in the block that could have a higher chance of encountering lighter oil.

In Namibia, Eco negotiated the reissuance and establishment of a new 10-year life cycle for each of their four offshore blocks, which received official approval from the Ministry of Mines and Energy on February 5, 2021.

# RECENT DEVELOPMENTS

## 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 ("CIT") and value added tax ("VAT") by the Kenya Revenue Authority ("KRA") relating to farmout transactions completed during the period 2012 to 2017.

The Kenyan Tax Appeals Tribunal ("TAT") has ruled in favour of the Company with regards to the CIT assessments, which amounts to $21.6 million, plus interest and penalties. However, the TAT ruled in favour of the KRA with regards to the VAT assessments which amounts to $25.3 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 the second quarter of 2021 to provide a date for the appeals to be heard. The Judge will give his judgment at a subsequent date, where the Company expects it is more likely than not that it will be successful in upholding the CIT and defending the VAT assessments.

# SUMMARY OF QUARTERLY INFORMATION

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

| **Three months ended** (thousands, except per share amounts) | **31-Mar 2021** | **31-Dec 2020** | **30-Sep 2020** | **30-Jun 2020** | **31-Mar 2020** | **31-Dec 2019** | **30-Sep 2019** | **30-Jun 2019** |
|---|---|---|---|---|---|---|---|---|
| Share of profit/(loss) from equity investments ($) | 47,929 | 91,234 | 31,755 | 30,318 | 87,055 | (3,446) | 141 | (9,198) |
| Net income/(loss) attributable to common shareholders ($) | 38,920 | 79,845 | 21,189 | 19,234 | (137,882) | (146,198) | (597) | (9,463) |
| Weighted average shares - Basic | 472,147 | 471,954 | 471,950 | 471,950 | 471,311 | 471,214 | 471,214 | 471,214 |
| Weighted average shares - Diluted | 475,011 | 475,144 | 475,150 | 475,150 | 471,311 | 471,214 | 471,214 | 471,214 |
| Basic income/(loss) per share ($) | 0.08 | 0.17 | 0.04 | 0.04 | (0.29) | (0.31) | (0.00) | (0.02) |
| Diluted income/(loss) per share ($) | 0.08 | 0.17 | 0.04 | 0.04 | (0.29) | (0.31) | (0.00) | (0.02) |

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

The Company recognized impairments in December 31, 2019 and March 31, 2020 relating to its Kenyan intangible exploration and evaluation assets, which contributed to the net loss in those quarters.

## RESULTS OF OPERATIONS

| | Three months ended March 31, 2021 | Three months ended March 31, 2020 |
|---|---|---|
| Share of profit/(loss) from equity investments | 47,929 | 87,055 |
| Salaries and benefits | (1,299) | (940) |
| Share-based compensation | (1,106) | 315 |
| Office and general | (1,318) | (1,817) |
| Impairment of intangible exploration assets | - | (215,600) |
| Net operating income/(loss) | 44,206 | (130,987) |

The Company recognized net operating income amounting to $44.2 million during the three months ended March 31, 2021 compared with a loss of $131.0 million during the same period in 2020. Included in the Company's share of profit from equity investments is profit from its 50% investment in Prime of $48.8 million in the first quarter of 2021 compared with $85.6 million during the first quarter of 2020. Prime's profit has reduced due to a lower realized oil price of $58.14/bbl in the first quarter of 2021 compared with $72.28/bbl during the first quarter of 2020, and the timing of liftings, moving from a net underlift position as at March 31, 2020, to a net overlift position as at March 31, 2021.

In the three months ended March 31, 2021, profit from equity investments was offset by operating expenses relating to corporate overheads. In the three months ended March 31, 2020, the operating expense was primarily due to the recognition of a $215.6 million impairment of intangible exploration assets relating to the valuation of Block 10BB/13T and Block 10BA, both in Kenya.

Salaries and benefits increased $0.4 million during the first quarter of 2021 compared to the same quarter in 2020, due to one-off severance payments made as part of G&A reduction measures, and a reduction in the amount of salaries capitalized to exploration projects, from $0.4 million in the three month period to March 2020 to $0.1 million in the three months to March 2021.

Share based compensation relates to the Long Term Incentive Plan ("LTIP") and Stock Option Plan. The recognition of income in the three months ended March 31, 2020 was due to the revaluation of the Company's LTIP's.

## INTANGIBLE EXPLORATION ASSETS

| (thousands) | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Intangible exploration assets | 189,996 | 190,396 |

During the three months to March 31, 2021 the Company and its joint venture partners in Kenya progressed the revised FDP for submission by December 31, 2021. The expenditure in the period to March 31, 2021 was $1.2 million, offset by the release of project accruals and provisions no longer expected to fall due, resulting in a $0.5 million credit to intangible exploration assets. The Company incurred $0.1 million on Block 3B/4B reevaluating 2D and 3D seismic data previously acquired.

During the three months ended March 31, 2020, the Company incurred $10.2 million of intangible exploration expenditures. These expenditures relate to the completion of the acquisition of a 20% participating interest in the Block 3B/4B Exploration Right ($4.6 million) as well as the Company's share of costs associated with appraisal stage projects in Kenya ($5.6 million) which are pending the determination of proven and probable petroleum reserves.

# LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2021, the Company had cash of $29.4 million and working capital of $20.9 million (excluding financing repayments), compared with cash of $40.5 million and working capital of $29.3 million at December 31, 2020.

The Company's Term Loan was drawn on January 14, 2020 to partly fund the acquisition of Prime and has a duration of two years. $141.0 million is outstanding at March 31, 2021. The Company has provided security in respect of the Term Loan mainly in the form of share pledges, over the shares of Petrovida (which holds 50% of shares in Prime), Eco, Africa Energy and Impact owned by Africa Oil and a charge over the bank accounts into which the Prime dividends are paid.

The loan repayments are calculated to be protective of the Company's liquidity position. The loan principal will be repaid by the lesser of 80% of the dividends received from Prime (less interest due for the month in which the dividend was received), and of an amount that ensures the Company hold a minimum projected consolidated cash balance in the six months following the repayment. The Company's loan repayments reduce commensurately with any reduction in dividends from Prime. The loan is subject to a fixed interest rate of 15% and is not subject to any debt covenants.

Prime did not distribute a dividend to its shareholders in the first quarter of 2021. During the year ended December 31, 2020, Prime distributed six dividend payments totaling of $400.0 million to its shareholders, with a net payment to Africa Oil of $200.0 million related to its 50% interest. The dividends earned during 2020 were applied partly to the repayment of its loan facility, reducing the balance from $250.0 million to $141.0 million at December 31, 2020.

On May 13, 2021 the Company signed a new Corporate Facility for an amount of up to $150.0 million with a three-year term, which is available from the end of July 2021. $130.0 million has been committed and an uncommitted accordion feature allows for an additional $20.0 million. The purpose of the loan is to refinance the Term Loan, and general corporate purposes, and it will be repaid from the proceeds of dividends received from Prime, while ensuring the Company preserves a sufficient minimum cash balance to conduct operations. This loan has an interest rate of LIBOR plus a margin of 6.5% in the first year, 7% 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 is payable at LIBOR+6.5%. The security provided on the loan is similar to the Term Loan. The loan will be subject to financial and liquidity covenants.

If a dividend is paid by Prime prior to drawing down the Corporate Facility, the amount outstanding under the Term Loan may be reduced to under $130.0 million. The initial $130.0 million of commitments received and existing cash balances is expected to be sufficient to repay the Term Loan in full before January 2022.

Any amounts of the Corporate Facility available after the repayment of the existing Term Loan and the potential exercise of the uncommitted accordion would be used for general corporate purposes.

Going forward, the company will continue to apply dividends in priority to debt repayment and continuing to maintain a minimum cash balance.

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

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

The Company believes that the committed Corporate Facility 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.

# OUTLOOK

The Company, with the acquisition of 50% of Prime, is a full-cycle E&P company with material reserves and production, strong operating netbacks, and free cash flow generation that is supported by an active oil price hedging program at the Prime level. Prime is expected to continue to optimize its balance sheet in 2021. The Company will continue to repay its debt from the dividends distributed from Prime.

The completion of the up to $150 million Corporate Facility, to be drawn at the end of July 2021, will secure a significantly lower margin and extend the maturity of the debt. The margin will be 6.5% in the first year, 7% in the second year and 7.5% in the third year compared with the existing Term Loan margin of 15%. The loan is a three-year facility and there are no debt repayments (other than from dividends received from Prime) due in the near term.

In parallel, the Company is continuing to review acquisition opportunities in Africa that would be cash flow accretive.

In Kenya, the JV partners are designing a field development plan for the South Lokichar development in collaboration with the Government of Kenya in order to optimize the economics of a more sustainable project and secure a long term extension of the licences, while minimizing expenditures in the short term.

Through its 30.9% shareholding in Impact Oil & Gas, the Company has exposure to the Venus-1 exploration well in Block 2913B, offshore Namibia which is expected to spud in the third quarter of 2021. Venus-1 will target a large basin floor fan system with significant undiscovered petroleum initially in place that has been identified using 3D seismic data. The well will be operated by a subsidiary of Total S.A. (40%) with partners Qatar Petroleum (30%.), Impact (20%) and NAMCOR (10%). Africa Oil has a net 6% indirect economic stake in the license through its shareholding in Impact.

Venus-1 is a potential basin-opening well and could be an impactful catalyst for the Company's other interests in the area. A successful Venus-1 well would demonstrate the presence of an active regional petroleum system and would increase the prospectivity of adjacent blocks including Block 3B/4B, where Africa Oil holds a 20% operated working interest.

Through its shareholding in Africa Energy, the Company has exposure to the Gazania-1 exploration well that will be drilled in Block 2B offshore South Africa, by the end of 2021. The Gazania-1 will test a prospect in the A-J rift basin that is near and updip of the A-J1 oil discovery (1988) that flowed 36º API oil to surface. A success at Gazania-1 would de-risk a large inventory of prospects in the block that have been identified from 3D seismic data. Africa Oil has an indirect 5.5% economic interest in Block 2B through its 19.9% shareholding of Africa Energy. Africa Energy holds a carried 27.5% working interest in Block 2B with partners Azinam (Operator, 50% WI), Panoro Energy (12.5% W.I.) and Crown Energy (10% W.I.).

# 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, 2020, the Company's ownership interest in Africa Energy is approximately 19.9%.

*Services Agreements:*

| (thousands) | Service provider | Service provided | Invoice value 2021 | Invoice value 2020 | Balance owing 2021 | Balance owing 2020 |
|---|---|---|---|---|---|---|
| General Management and Service Agreement | AOC to Africa Energy | Administrative services provided to Africa Energy. | 21 | 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, located offshore South Africa. | 96 | 192 | - | - |

[1] Expired June 30, 2020
[2] Contract date July 1, 2020

# COMMITMENTS AND CONTINGENCIES

There are no substantive changes to the commitments and contingencies that are representative of AOC's net obligations at the effective date of the MD&A, compared with the MD&A for the year ending December 31, 2020.

# 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 | 473,252,117 |
| Outstanding share purchase options | 9,485,000 |
| Outstanding performance share units | 5,463,912 |
| Outstanding restricted share units | 2, 169,239 |
| Full dilution impact on common shares outstanding | 490,370,268 |

## NON-GAAP MEASURES

This MD&A includes non-GAAP measures as further described herein. These non-GAAP measures 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 measures 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.

Free cash flow: calculated from total cash flow, adding back dividends and debt service. This measure represents cash generated after costs, and is a measure commonly used to assess the Company's profitability.

Opex/boe: represents operating costs on a per barrel of oil equivalent basis which allows the Company to better analyze performance against prior periods on a comparable basis.

Presentation of Prime:

The Company's 50% equity interest in Prime is accounted for as an Investment in Joint Venture under the equity method on the Balance Sheet. Where metrics have been disclosed relating to Prime's production, operational performance, or financial information this is to provide useful information to the user, to understand the performance in the period. The Company records a 50% share of Prime's net income or loss in the period in the Statement of Net Income/Loss, as well as a 50% share of their Other Comprehensive Income/Loss. Dividends received are disclosed as a cash flow from investing activities in the Cash Flow Statement. No other line items in the Financial Statements of the Company relate to Prime.

## OFF-BALANCE SHEET ARRANGEMENTS

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

## CRITICAL ACCOUNTING ESTIMATES

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

### 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, stock-based compensation, valuation and impairment of equity investments and income taxes.

The Company' significant accounting policies can be found in the Company's Financial Statements for the year ended December 31, 2020.

## Intangible Exploration Assets

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

Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are recognized in the statement of 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 (the "cash-generating unit" or "CGU") within intangible exploration assets. The allocation of the Company's assets into CGUs requires judgment.

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

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

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

## Equity Based Compensation

The Company has two stock-based compensation plans.

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

2) Long-Term Incentive Plan comprising of PSUs and RSUs:
   - PSUs: The estimated fair value of the PSUs is initially determined at the time of grant and is based on non-market performance conditions. The estimated fair value of the PSUs is assessed for revaluation at the end of every reporting period. The estimated fair value is recognized over the applicable vesting period as share-based compensation expense.

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

- From 2021 onwards the long-term incentive plan for the Executives will be comprised solely of PSUs.  RSU's will only be awarded to the Non-Executive Directors. The Board decided to cease awarding stock options to all Company employees, and will instead award PSUs to employees.

## 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.

## Income Tax

The Company follows the balance sheet method of accounting for income taxes whereby future income taxes are recognized based on the differences between the carrying values of assets and liabilities reported in the Annual Financial Statements and their respective tax basis. Future income tax assets and liabilities are recognized at the tax rates at which Management expects the temporary differences to reverse. Management bases this expectation on future earnings, which require estimates for reserves, timing of production, crude oil price, operating cost estimates and foreign exchange rates. Management assesses, based on all available evidence, the likelihood that the future income tax assets will be recovered from future taxable income and future income tax assets are recognized to the extent that it is more than likely that future income tax assets will be realized. As a result, future earnings are subject to significant Management judgment.

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

## INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

### Disclosure controls and procedures

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 March 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 of March 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 MD&A. Such terms may be misleading, particularly if used in isolation. Year-end 2020 reserves estimates are based on a conversion ratio of six thousand cubic feet per barrel of oil equivalent (6 Mcf: 1 boe), which 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 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.

The reserves disclosure is based on an independent reserves evaluation, effective 31 December 2020, prepared by RISC (UK) Limited ("RISC") for Africa Oil in accordance with Canadian National Instrument 51-101 – Standards for Oil and Gas Activities ("NI 51-101") and the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook"). The reserves presented herein have been categorized accordance with the reserves and resource definitions as set out in the COGE Handbook. The estimates of reserves in this MD&A 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.

RISC's report was prepared using Brent oil price forecast of ($/bbl): 2021 – 55.0; 2022 – 56.1; 2023 – 57.2; 2024 – 58.4; 2025 – 59.5; 2026 and beyond – escalation rate of 2.0%. There is no assurance that the forecast prices will be attained and variances could be material. The recovery and reserves estimates of crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquids reserves may be greater than or less than the estimates provided herein.

Gross Company reserves are the total project sales volumes multiplied by Company's working interest. Net oil reserves are Company's net entitlement calculated using economic limit testing.

Gross and net reserves for sales gas are equal as the gas terms are set out in the Gas Sales and Purchase Agreement rather than the PSA, and the net reserves are based on Company's working interest

# RISK FACTORS

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, a reduction 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 highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus 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

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

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

## 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
- 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.

## 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. 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 various laws and regulations issued by authorities that have appropriate jurisdiction over it ("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 will be adversely affected by the passing of the Petroleum Industry Bill as currently envisaged, which is expected to take place in the first half of 2021, and which may include the imposition of deep-water royalties on the Company's producing assets in Nigeria.

## Investments in Associates

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, 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 are entities in which the Company has influence but, given its minority interest, no control over their decisions, including, without limitation, financial and operational policies. 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 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.

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 Africa Oil 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 '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 Africa Oil, the Company could be subject to the jurisdiction of courts other than those of Canada. The Company's recourse may be very limited in the event of a breach by a government or government authority of an agreement governing a concession in which the Company acquires an interest. The Company may require licenses or permits from various governmental authorities to carry out future exploration, development and production activities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits when required.

## Different Legal System and Litigation

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 a credit facility with BTG. 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 working interest farmout agreements. The Company's future operations may be dependent upon the identification and successful completion of additional equity or debt financing, the achievement of profitable operations (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 Africa Oil be unable to continue as a going concern.

## 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 Africa Oil'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, the Company's rights under such concession, license or contract may be terminated or otherwise relinquished in whole or in part.

## 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. 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 working interest farm-out agreements. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to the Company. If additional financing is raised through the issuance of equity or convertible debt securities, control of the Company may change and the interests of shareholders in the net assets of the Company may be diluted. If unable to secure financing on acceptable terms, the Company may have to cancel or postpone certain of its planned exploration and development activities which may ultimately lead to the Company's inability to fulfill the minimum work obligations under the terms of its various 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 Africa Oil'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 March 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 working interests. The maximum exposure for the Company is equal to the sum of its cash, restricted cash, and accounts receivable. A portion of the Company's cash is held by banks in foreign jurisdictions where there could be increased exposure to credit risk.

## Cybersecurity

The Company has become increasingly dependent upon the availability, capacity, reliability and security of its information technology ("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 judgments 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 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'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;
- Anticipating timing for the repayment of the Term Loan;
- Possible commerciality;
- Development plans or capacity expansions;
- Future ability to execute dispositions of assets or businesses;
- Future drilling of new wells;
- Ultimate recoverability of current and long-term assets;
- Ultimate recoverability of reserves or resources;
- Estimates on a per share basis;
- Future foreign currency exchange rates;
- Future market interest rates;
- Future expenditures and future allowances relating to environmental matters;
- Dates by which certain areas will be explored or developed or will come on stream or reach expected operating capacity;
- The Company's ability to comply with future legislation or regulations;
- Future staffing level requirements; and
- Changes in any of the foregoing.

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

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

- Market prices for oil and gas and chemical products;
- 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.

# CONSOLIDATED BALANCE SHEETS

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

| | Note | March 31, 2021 | December 31, 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | | | |
| Cash and cash equivalents | 12 | 29,435 | 40,474 |
| Accounts receivable and prepaid expenses | | 2,223 | 1,385 |
| | | 31,658 | 41,859 |
| Long-term assets | | | |
| Equity investment in joint venture | 7 | 597,748 | 561,302 |
| Equity investments in associates | 8 | 115,327 | 116,212 |
| Property and equipment | | 639 | 730 |
| Intangible exploration assets | 6 | 189,996 | 190,396 |
| | | 903,710 | 868,640 |
| Total assets | | 935,368 | 910,499 |
| **LIABILITIES AND EQUITY** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 5 | 7,780 | 10,487 |
| Share-based compensation liability | | 2,529 | 1,597 |
| Lease obligations | | 400 | 451 |
| Short-term debt | 9 | 141,000 | - |
| | | 151,709 | 12,535 |
| Long-term liabilities | | | |
| Share-based compensation liability | | 1,234 | 2,443 |
| Lease obligations | | 215 | 234 |
| Long-term debt | 9 | - | 141,000 |
| | | 1,449 | 143,677 |
| Total liabilities | | 153,158 | 156,212 |
| Equity attributable to common shareholders | | | |
| Share capital | 10(b) | 1,307,749 | 1,306,476 |
| Contributed surplus | | 50,937 | 50,839 |
| Deficit | | (571,799) | (610,719) |
| Accumulated other comprehensive (loss)/income | | (4,677) | 7,691 |
| Total equity attributable to common shareholders | | 782,210 | 754,287 |
| Total liabilities and equity attributable to common shareholders | | 935,368 | 910,499 |
| Commitments and contingencies | 11 | | |

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

Approved on behalf of the Board:

*"ANDREW BARTLETT"* *"KEITH HILL"*

ANDREW BARTLETT, DIRECTOR KEITH HILL, DIRECTOR

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

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

| For the three months ended | Note | March 31, 2021 | March 31, 2020 |
|---|---|---|---|
| Operating income | | | |
| Share of profit from investment in joint venture | 7 | 48,814 | 85,585 |
| Share of (loss)/profit from investments in associates | 8 | (885) | 1,470 |
| Total operating income | | 47,929 | 87,055 |
| Operating expenses | | | |
| Salaries and benefits | | (1,299) | (940) |
| Share-based compensation | | (1,106) | 315 |
| Office and general | | (1,318) | (1,817) |
| Impairment of intangible exploration assets | 6 | - | (215,600) |
| Total operating expenses | | (3,723) | (218,042) |
| Net operating income/(loss) | | 44,206 | (130,987) |
| Finance income | | 22 | 966 |
| Finance expense | | (5,308) | (7,861) |
| Net income/(loss) attributable to common shareholders | | 38,920 | (137,882) |
| Other comprehensive income/(loss) | | | |
| Share of joint venture other comprehensive (loss)/income | 7 | (12,368) | 8,895 |
| Total comprehensive income/(loss) | | 26,552 | (128,987) |
| Net income/(loss) attributable to common shareholders per share | 14 | | |
| Basic | | 0.08 | (0.29) |
| Diluted | | 0.08 | (0.29) |
| Weighted average number of shares outstanding for the purpose of calculating earnings per share | 14 | | |
| Basic | | 472,147,043 | 471,311,393 |
| Diluted | | 475,010,525 | 471,311,393 |

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

## CONSOLIDATED STATEMENTS OF EQUITY

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

| | Note | March 31, 2021 | March 31, 2020 |
|---|---|---|---|
| **Share capital:** | 10(b) | | |
| Balance, beginning of the period | | 1,306,476 | 1,305,953 |
| Settlement of Performance Share Units | | 508 | 88 |
| Settlement of Restricted Share Units | | 765 | 415 |
| Balance, end of the period | | 1,307,749 | 1,306,456 |
| **Contributed surplus:** | | | |
| Balance, beginning of the period | | 50,839 | 51,389 |
| Share-based compensation | | 98 | 131 |
| Reclass of Performance Share Units from Equity Settled to Cash Settled | | - | (1,255) |
| Balance, end of the period | | 50,937 | 50,265 |
| **Deficit:** | | | |
| Balance, beginning of the period | | (610,719) | (590,639) |
| Net income/(loss) attributable to common shareholders | | 38,920 | (137,882) |
| Balance, end of the period | | (571,799) | (728,521) |
| **Accumulated other comprehensive income/(loss):** | | | |
| Balance, beginning of the period | | 7,691 | - |
| Other comprehensive (loss)/income | 7 | (12,368) | 8,895 |
| Balance, end of the period | | (4,677) | 8,895 |
| Total equity attributable to common shareholders | | 782,210 | 637,095 |

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

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

| For the three months ended | | March 31, 2021 | March 31, 2020 |
|---|---|---|---|
| Cash flows provided by/(used in): | **Note** | | |
| Operations: | | | |
| Net income/(loss) for the period | | 38,920 | (137,882) |
| Adjustments for: | | | |
| Share-based compensation | | 1,106 | (315) |
| Depreciation | | 325 | 350 |
| Impairment of intangible exploration assets | | - | 215,600 |
| Interest on lease obligations | | 11 | 33 |
| Share of profit from investment in joint venture | 7 | (48,814) | (85,585) |
| Share of loss/(profit) from investments in associates | 8 | 885 | (1,470) |
| Interest on term loan | 9 | 5,288 | 7,760 |
| Unrealized foreign exchange loss | | - | 57 |
| Changes in non-cash operating working capital | 16 | (1,041) | 2,223 |
| Net cash (used in)/provided by operating activities | | (3,320) | 771 |
| Investing: | | | |
| Property and equipment expenditures | | (234) | (25) |
| Intangible exploration expenditures | 6 | 400 | (10,191) |
| Equity investment in joint venture | | - | (516,200) |
| Equity investment in associates | | - | (16,969) |
| Dividends received from joint venture | | - | 87,500 |
| Changes in non-cash investing working capital | 16 | (2,504) | 1,880 |
| Net cash used in investing activities | | (2,338) | (454,005) |
| Financing: | | | |
| Term Loan relating to acquisition of joint venture | | - | 250,000 |
| Repayment of Term Loan | | - | (52,968) |
| Payment of interest | 9 | (5,288) | - |
| Settlement of Performance and Restricted Share Units | | - | (342) |
| Payment of lease obligations | | (81) | (338) |
| Net cash (used in)/provided by financing activities | | (5,369) | 196,352 |
| Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency | | (12) | (57) |
| Decrease in cash and cash equivalents | | (11,039) | (256,939) |
| Cash and cash equivalents, beginning of the period | | 40,474 | 329,464 |
| Cash and cash equivalents, end of the period | | 29,435 | 75,525 |
| Supplementary information: | | | |
| Income taxes paid | | Nil | Nil |

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

## 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, a change in environmental, social and governance policies, the risk of war, terrorism, civil unrest, expropriation, nationalization or other title disputes, renegotiation or nullification of existing or future concessions and contracts, the imposition of international sanctions, a change in crude oil or natural gas pricing policies, a change in taxation policies, the availability of capital, and the imposition of currency controls, in addition to the risks associated with exploration activities. These uncertainties, all of which are beyond the Company's control, could have a material adverse effect on AOC's business, prospects, 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:

During 2020 and the first quarter of 2021, we have witnessed an unprecedented level of market volatility, oil price volatility and a substantial reduction in the world oil demand due to the impact of the COVID-19 pandemic. We have also seen a robust response by international oil producers led by the group of OPEC+ countries to manage supply and address the challenge of demand destruction. The market uncertainties also prompted some financial institutions to reduce their exposure to the oil and gas industry, which affected the ability of small and medium size oil and gas companies to raise funds. The oil producers' response has removed significant supply to the market. Inventories have started to reduce and markets rebalance. However, with the appearance of several virulent variants of COVID-19, there is no certainty as to the time it will take for business activity and travels to return to normal and for oil demand to recover to pre-pandemic levels.

The impact of COVID-19 on the Company is largely related to the potential impact on dividends received from its investment in Prime Oil and Gas Coöperatief U.A. ("Prime") that has two producing fields in Nigeria. Prime benefited from a robust oil price hedging program, and has hedged 95% of its allocated 2021 cargos at an average dated brent of $56/bbl. 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 condensed consolidated interim financial statements in accordance with Canadian generally accepted accounting principles for interim periods, specifically International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). They are condensed as they do not include all the information required for full annual financial statements and they should be read in conjunction with the consolidated financial statements for the year ended December 31, 2020.

The policies applied in these condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as at May 13, 2021, 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 included in the notes to the annual financial statements.

**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 judgments:**

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

All significant estimates and judgement used in the preparation of these consolidated financial statements are described in the Company's audited consolidated financial statements for the year ended December 31, 2020.

## 4. Significant accounting policies:

All significant accounting policies used in the preparation of these consolidated financial statements are described in the Company's consolidated financial statements for the year ended December 31, 2020.

## 5. Accounts payable and accrued liabilities:

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Joint venture payables and other provisions | 6,699 | 9,677 |
| Administrative accruals and other payables | 1,081 | 810 |
| | 7,780 | 10,487 |

## 6. Intangible exploration assets:

| | Note | March 31, 2021 | December 31, 2020 |
|---|---|---|---|
| Net carrying amount, beginning of the period | | 190,396 | 411,669 |
| Intangible exploration expenditures | A | (400) | 20,802 |
| Reversal of oil and gas provisions | | - | (26,475) |
| Impairment of intangible exploration assets | B | - | (215,600) |
| Net carrying amount, end of the period | | 189,996 | 190,396 |

### A. Intangible exploration expenditures:

As at March 31, 2021, $190.0 million of expenditures have been capitalized as intangible exploration assets (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 proven and probable petroleum reserves.

The carrying amount of the Company's intangible exploration assets for its 25% interest in the Kenyan development project CGU (Block 10BB and 13T) as at March 31, 2021 was $185.8 million (December 31, 2020 - $186.3 million). In the first quarter of 2021, expenditures of $1.2 million were incurred progressing the field development plan ("FDP"). This was offset by a release of project accruals and provisions no longer expected to fall due.

The carrying amount of Block 10BA in Kenya is nil as at March 31, 2021 (December 31, 2020 - $0.0 million).

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 $4.2 million as at March 31, 2021 (December 31, 2020 - $4.1 million). In the first quarter of 2021, expenditures of $0.1 million were incurred reprocessing the 2D and 3D seismic.

As at March 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.

The Company capitalized $0.2 million of general and administrative expenses related to intangible exploration assets (March 31, 2020 - $1.0 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.

In 2020, an impairment of $215.6 million was recorded, reflecting the macro economic conditions and market challenges ($137.8 million related to the Block 10BB and 13T CGU, and $77.8 million related to Block 10BA).

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

## 7. Equity investment in joint venture:

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

On January 14, 2020, the Company closed the acquisition of a 50% ownership interest in Prime. BTG Pactual E&P B.V. ("BTG") continues to own the remaining 50% of Prime. The Company has accounted for the acquisition as a joint venture as there is joint control.

Prime is incorporated in the Netherlands and its principal place of business is Nigeria. The primary assets of Prime are an indirect 8% interest in Oil Mining Lease ("OML") 127 and an indirect 16% interest in OML 130. OML 127 is operated by affiliates of Chevron Corporation and cover part of the producing Agbami Field. OML 130 is operated by affiliates of Total S.A. and contains the producing Akpo and Egina Fields.

During the year ended December 31, 2020, Prime distributed six dividend payments totaling $400.0 million gross, with a net payment to Africa Oil of $200.0 million related to its 50% interest. No dividends were paid in the three months to March 31, 2021. The timing and payment of the dividends is discretionary. There are no restrictions on the ability of Prime to pay dividends to its shareholders.

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Balance, beginning of the period | 561,302 | - |
| Acquisition of common shares | - | 519,500 |
| Transaction and related fees associated with the acquisition of common shares | - | 25,130 |
| Dividends from Prime | - | (200,000) |
| Share of joint venture other comprehensive (loss)/ income | (12,368) | 7,691 |
| Share of joint venture profit | 48,814 | 208,981 |
| Balance, end of the period | 597,748 | 561,302 |

The Company recognized income of $48.8 million during the three month period ended March 31, 2021, relating to its investment in Prime (March 31, 2020 - $85.6 million).

The following tables summarizes Prime's financial information for the three months ended March 31, 2021. The information is based on unaudited financial information.

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Other current assets | 214,808 | 170,152 |
| Cash and cash equivalents included in current assets | 330,702 | 231,355 |
| Non-current assets [(1)] | 3,587,281 | 3,703,130 |
| Other current liabilities | (128,446) | (100,448) |
| Loans and borrowings included in current liabilities | (511,926) | (492,343) |
| Financial liabilities included in current liabilities | (17,764) | (5,349) |
| Other non-current liabilities | (233,599) | (263,505) |
| Loans and borrowings included in non-current liabilities | (737,888) | (809,067) |
| Deferred income tax liabilities included in non-current liabilities | (1,307,672) | (1,311,321) |
| Net assets of Prime | 1,195,496 | 1,122,604 |
| Percentage ownership | 50% | 50% |
| Proportionate share of Prime's net assets | 597,748 | 561,302 |

| For the three months ended | | March 31, 2021 | | March 31, 2020 |
|---|---|---|---|---|
| Revenue | | 306,624 | | 358,948 |
| Depreciation, depletion and amortization | (79,214) | | (129,654) | |
| Other production costs | (44,573) | | (45,542) | |
| (Overlift)/underlift | (32,624) | | 38,673 | |
| Cost of sales | | (156,411) | | (136,523) |
| Gross profit | | 150,213 | | 222,425 |
| Other operating income | | 64,222 | | 54,814 |
| Exploration expenses | | (627) | | - |
| Impairment | | - | | - |
| Other operating costs | | (6,789) | | (10,256) |
| Finance income | | 61 | | 677 |
| Finance costs | | (17,978) | | 20,432 |
| Profit before tax from continuing operations | | 189,102 | | 288,092 |
| Tax | | (91,474) | | (91,263) |
| Total profit for the period | | 97,628 | | 196,829 |
| Other comprehensive (loss)/income | | (24,737) | | 19,707 |
| Total comprehensive income | | 72,891 | | 216,536 |
| Proportionate share of Prime's profit for the period [(2)] | | 48,814 | | 85,585 |
| Proportionate share of Prime's other comprehensive (loss)/income [(2)] | | (12,368) | | 8,895 |
| Proportionate share of Prime's net income [(2)] | | 36,446 | | 94,480 |

(1) The carrying value of non-current assets includes a fair value adjustment of $551.9 million.

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

The Company has determined that there are no indicators of impairment as at March 31, 2021.

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

| Net assets | |
|---|---|
| Other current assets | 363,234 |
| Cash and cash equivalents included in current assets | 140,419 |
| Non-current assets | 3,779,129 |
| Other current liabilities | (15,137) |
| Loans and borrowings included in current liabilities | (620,973) |
| Financial liabilities included in current liabilities | (233,551) |
| Other non-current liabilities | (261,196) |
| Loans and borrowings included in non-current liabilities | (1,190,845) |
| Deferred income tax liabilities included in non-current liabilities | (1,451,515) |
| Identifiable assets and liabilities acquired | 509,565 |
| Notional goodwill | 579,435 |
| Total net assets acquired (1) | 1,089,000 |
| Percentage ownership | 50.0% |
| Proportionate share of Prime's net assets at fair value | 254,782 |
| Proportionate share of notional goodwill acquired | 289,718 |
| Total | 544,500 |

| Consideration | |
|---|---|
| Consideration issued | 544,500 |
| Total purchase price | 544,500 |

(1) The fair value of the identifiable assets and liabilities of Prime were $509.6 million on acquisition (January 14, 2020). The total fair value of the net assets acquired of $1,089.0 million in the above table includes transaction fees of $25.1 million as well as a fair value allocation adjustment of $579.4 million which was recorded as notional goodwill. The Company's share of the fair value of net-assets acquired includes $1,889.6 million related to non-current assets and $289.7 million related to notional goodwill.

A deferred payment of $118.0 million, subject to update, may be due to the seller depending on the date and ultimate OML 127 tract participation in the Agbami field. As the probability of this payment is unlikely, no provision was recorded on acquisition, or as at March 31, 2021.

## 8. Equity investments in associates:

The Company currently holds the following equity investments in associates:

| | **March 31, 2021** | **December 31, 2020** |
|---|---|---|
| Investment in Eco (Atlantic) Oil and Gas Ltd. | 12,908 | 12,922 |
| Investment in Africa Energy Corp. | 45,329 | 45,801 |
| Investment in Impact Oil and Gas Limited | 57,090 | 57,489 |
| Total Investment | 115,327 | 116,212 |

During the three months to March 31, 2021, the Company recognized a loss of $0.9 million (March 31, 2020 - $1.5 million gain).

The Company has determined that these investments are not impaired.

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

The Company's ownership interest as at March 31, 2021 in Eco is approximately 18.4%. Eco is an oil and gas exploration company with interests in Guyana and Namibia.

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Balance, beginning of the period | 12,922 | 12,022 |
| Share of (loss)/income from equity investment | (14) | 900 |
| Balance, end of the period | 12,908 | 12,922 |

During the three months to March 31, 2021, the Company recognized a loss of $0.01 million relating to its investment in Eco (March 31, 2020 - $0.7 million gain).

There were no indicators of impairment on the investment as at March 31, 2021.

### B. Africa Energy Corp. ("Africa Energy"):

Africa Energy holds participating interests in exploration blocks located offshore South Africa and offshore Namibia. The Company's ownership interest as at March 31, 2021 is approximately 19.9%.

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Balance, beginning of the period | 45,801 | 17,882 |
| Additional investment through private placements | - | 11,765 |
| Share of loss from equity investment | (472) | (1,285) |
| Dilution adjustment | - | (2,466) |
| Gain on dilution of equity investment | - | 19,905 |
| Balance, end of the period | 45,329 | 45,801 |

During the three months ended March 31, 2021, the Company recognized a loss of $0.5 million relating to its investment in Africa Energy (March 31, 2020 - $0.7 million loss).

During 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 Oil & Gas Limited 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% as at January 1, 2020 to approximately 19.9% as 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.

There were no indicators of impairment on the investment as at March 31, 2021.

### C. Impact Oil and Gas Limited ("Impact"):

On February 14, 2020, Impact completed a private placement, in which the Company participated, investing approximately $12.0 million, acquiring approximately 45,000,000 shares. As at March 31, 2021 the Company's ownership interest in Impact is approximately 30.9%

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Balance, beginning of the period | 57,489 | 33,659 |
| Additional investment through the Subscription Agreement | - | 11,969 |
| Share of (loss)/income from equity investment | (399) | 11,861 |
| Balance, end of the period | 57,090 | 57,489 |

During the three months ended March 31, 2021, the Company recognized a loss of $0.4 million relating to its investment in Impact (March 31, 2020 - $1.4 million gain).

There were no indicators of impairment on the investment as at March 31, 2021.

## 9. Debt:

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Balance, beginning of the period | 141,000 | - |
| Drawdown | - | 250,000 |
| Repayment | - | (109,000) |
| Balance, end of the period | 141,000 | 141,000 |
| Short-Term | 141,000 | - |
| Long-Term | - | 141,000 |

The Term Loan was drawn on January 14, 2020 to part fund the acquisition of Prime and has a duration of two years. $141.0 million is outstanding as at March 31, 2021. The Company has provided security in respect of the Term Loan mainly in the form of share pledges, over the shares of Petrovida (which holds 50% of Prime), Eco, Africa Energy and Impact owned by Africa Oil and a charge over the bank accounts into which the Prime dividends are paid.

The loan repayments are calculated to be protective of the Company's liquidity position. 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. The loan principal will be repaid by the lesser of 80% of the dividends received from Prime (less interest due for the month in which the dividend was received), and of an amount that ensures the Company hold a minimum projected consolidated cash balance in the six months following the repayment. The loan is subject to a fixed interest rate of 15%, accruing monthly, and is not subject to any debt covenants.

If the Company makes a voluntary repayment of the facility prior to July 14, 2021 (unless the repayment is made from a dividend received from Prime), a prepayment fee of 15% of the repayment value, apportioned for the number of days until July 14, 2021, is payable.

Post period end, the Company has signed a new corporate facility for an amount up to $150.0 million with a three-year term, which can be drawn from the end of July 2021 ("Corporate Facility"). $130.0 million has been committed and an uncommitted accordion option allows for an additional $20.0 million. The purpose of the loan is to refinance the Term Loan, and general corporate purposes, and it will be repaid from the proceeds of dividends received from Prime, while ensuring the Company preserves a sufficient minimum cash balance to conduct operations. This loan carries interests of 1 month-Libor plus a margin of 6.5% in the first year, 7% in the second year and 7.5% in the third year. Completion is subject to customary conditions precedent and is expected to occur before the end of July 2021.

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 is payable at LIBOR+6.5%. The security provided on the loan will be similar to the Term Loan. The loan will be subject to financial and liquidity covenants.

## 10. Share capital:

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

**B. Issued:**

| | March 31, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| | Shares | Amount | Shares | Amount |
| Balance, beginning of the period | 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 | 776,200 | 765 | 617,157 | 435 |
| Balance, end of the period | 473,252,117 | 1,307,749 | 471,960,472 | 1,306,476 |

## 11. Commitments and contingencies:

**A. Kenya Revenue Authority:**

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

The Kenyan Tax Appeals Tribunal ("TAT") has ruled in favour of the Company with regards to the CIT assessments, which amounts to $21.6 million, plus interest and penalties. However, the TAT ruled in favour of the KRA with regards to the VAT assessments which amounts to $25.3 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 the second quarter of 2021 to provide a date for the appeals to be heard. The Judge will give his judgment at a subsequent date, where the Company expects it is more likely than not that it will be successful in upholding the CIT and defending the VAT assessments.

**B. Contractual obligations:**

**Kenya:**
Under the terms of the Block 10BA PSC, the Company received preliminary 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 Field Development Plan for Block 10BB and 13T.

The work commitments remain unchanged and includes an exploratory well. As at March 31, 2021, the Company's working interest in Block 10BA was 25%.

### C. Investment in Prime:

A deferred payment of $118.0 million, subject to update, may be due to the seller depending on the date and ultimate OML 127 tract participation in the Agbami field. As the probability of this payment is unlikely, no provision was recorded as at March 31, 2021 or December 31, 2020.

## 12. Cash and cash equivalents:

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Cash and cash equivalents | 29,277 | 38,736 |
| Restricted cash | 158 | 1,738 |
| | 29,435 | 40,474 |

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

## 13. 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 March 31, 2021, the Company's ownership interest in Africa Energy is approximately 19.9%.

Services Agreements:

| | Service provider | Service provided | Invoice value 2021 | Invoice value 2020 | Balance owing 2021 | Balance owing 2020 |
|---|---|---|---|---|---|---|
| General Management and Service Agreement | AOC to Africa Energy | Administrative services provided to Africa Energy. | 21 | 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, located offshore South Africa. | 96 | 192 | - | - |

(1) Expired June 30, 2020

(2) Contract date July 1, 2020

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

| For the three months ended | March 31, 2021 | | | March 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<br>Net income/(loss) attributable to common shareholders | 38,920 | 472,147,043 | 0.08 | (137,882) | 471,311,393 | (0.29) |
| Effect of dilutive securities | - | 2,863,482 | - | - | - | - |
| Dilutive income/(loss) per share | 38,920 | 475,010,525 | 0.08 | (137,882) | 471,311,393 | (0.29) |

During the period ended March 31, 2021, the Company used an average market price of CAD$1.22 per share (March 31, 2020 – CAD $1.22 per share) to calculate the dilutive effect of share purchase options. For the period ended March 31, 2021, 6,689,667 options and 2,431,272 RSUs were dilutive and 2,872,000 options were anti-dilutive and were not included in the calculation of dilutive income per share. For the three months ended March 31, 2020, 9,762,500 options and 3,200,135 RSUs were anti-dilutive and not included in the calculation of dilutive loss per share.

PSU's are contingently issuable shares as they have a performance related component, and are not included in the number of dilutive securities.

## 15. Financial risk management:

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

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

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

### A. Credit risk:

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The majority of our credit exposure relates to amounts due from our joint venture partners. The risk of our joint venture partners defaulting on their obligations per their respective joint operating and farmout agreements is mitigated as there are contractual provisions allowing the Company to default joint venture partners who are non-performing and reacquire any previous farmed out working interests. The maximum exposure for the Company is equal to the sum of its cash and accounts receivable. As at March 31, 2021, the Company held $0.8 million (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 phase, require sufficient cash in order to fulfill their work commitments in accordance with contractual obligations and to be able to potentially acquire strategic oil and gas assets.

The Company will potentially issue equity and 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 has provided security in respect of the Term Loan mainly in the form of share pledges, over the shares of Petrovida, Eco, Africa Energy and Impact owned by Africa Oil and a charge over the bank accounts into which the Prime dividends are paid. The loan repayments are calculated to be protective of the Company's liquidity position. The loan principal will be repaid by the lesser of 80% of the dividends received from Prime (less interest due for the month in which the dividend was received), and of an amount that ensures the Company hold a minimum projected consolidated cash balance in the six months following the repayment.

Post period end, the Company has signed a new Corporate Facility for an amount up to $150.0 million with a three-year term, which can be drawn from the end of July 2021. The purpose of the loan is to refinance the Term Loan which is due for repayment by January 14, 2022, and general corporate purposes. Similar to the existing facility, it will be repaid from the proceeds of dividends received from Prime, while ensuring the Company preserves a sufficient minimum cash balance to conduct operations. The loan will be subject to financial and liquidity covenants.

The Company will also adjust the pace of its exploration and appraisal activities to manage its liquidity position. The expected proceeds from debt issuances and expected dividends from equity method investees, are sufficient to fund the Company's obligations as they become due.

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 |
|---|---|---|---|---|---|---|
| **As at March 31, 2021** | | | | | | |
| Trade payables | 7,780 | - | - | - | 7,780 | 7,780 |
| Borrowings | 10,751 | 147,228 | - | - | 157,979 | 141,000 |
| Lease liabilities | 331 | 128 | 140 | 142 | 741 | 615 |
| | 18,862 | 147,356 | 140 | 142 | 166,500 | 149,395 |
| **As 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:**

As at March 31, 2021, the Company had the Term Loan of which $141.0 million was outstanding. The loan is subject to a fixed interest rate of 15%.

iii. **Commodity price risk:**

The Company has an equity holding in Prime (see note 7), which has two producing fields OML127 and OML 130, both with significant levels of production. A change in commodity prices may affect the dividends received from this investment. Prime has a robust oil price hedging program and has sold forward or hedged 95% of its 2021 cargoes at an average price of approximately $56/bbl. These contracts are with counterparties including oil supermajors and commodity trading houses. The counterparties are part of groups with investment grade credit ratings.

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

## 16. Supplementary information:

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

| For the three months ended | March 31, 2021 | March 31, 2020 |
|---|---|---|
| Changes in non-cash working capital | | |
| Accounts receivable and prepaid expenses | (838) | 2,436 |
| Accounts payable and accrued liabilities | (2,707) | 1,667 |
| | (3,545) | 4,103 |
| Relating to: | | |
| Operating activities | (1,041) | 2,223 |
| Investing activities | (2,504) | 1,880 |
| Changes in non-cash working capital | (3,545) | 4,103 |

## 17. Subsequent events:

On May 13, 2021, the Company has signed a new Corporate Facility for an amount up to $150.0 million with a three-year term, which can be drawn from the end of July 2021. $130.0 million has been committed at signing and an uncommitted accordion feature allows for an additional $20.0 million. The purpose of the loan is to refinance the Term Loan, and general corporate purposes, and it will be repaid from the proceeds of dividends received from Prime, while ensuring the Company preserves a sufficient minimum cash balance to conduct operations. Completion is subject to customary conditions precedent and is expected to occur before mid-July 2021.

The key terms are described in note 9.