



AFRICA OIL CORP.

REPORT TO SHAREHOLDERS

FOR THE YEAR ENDED DECEMBER 31, 2022

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis ("MD&A") focuses on significant factors that have affected the Company during the year ended December 31, 2022, 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 audited consolidated financial statements for the years ended December 31, 2022, and 2021, and related notes thereto.

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

This MD&A was reviewed and approved by the Board of Directors. The effective date of this MD&A is February 27, 2023.

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

AOC's long-term plan is to deliver sustainable shareholder value through the development and production associated with its existing asset portfolio, accretive acquisitions, exploration, and monetizing value from its shareholdings in its investee companies. Africa Oil will maintain its primary focus on its Nigerian and Namibian Orange Basin assets and continues to work on optimizing and unlocking shareholder value in its other assets.

The Company is a unique investment opportunity for its exposure to the Venus light oil and associated gas discovery offshore Namibia, as it is the only publicly listed independent oil and gas company with an interest in this field. The Venus discovery, together with the Graff discovery on a neighbouring block (the Company has no interest in Graff) announced in 2022, have opened a new petroleum province in the Orange Basin with significant upside potential. Venus and Graff discoveries support the exploration case for Block 3B/4B, which is operated by the Company with a 20% WI, and Impact's Orange Basin Deep Block, both located in Orange Basin and on trend with Venus and Graff discoveries.

AOC's potentially high impact appraisal and exploration catalysts are complemented by its production and cash flowing assets in Nigeria, which it holds through its 50% shareholding in Prime. Prime is a Nigeria-focused company with interests in OML's 127 and 130 and accounts for all of AOC's reserves and production. The Company's management expect that infill drilling on the currently producing fields and the development of oil and gas discoveries in Prime's portfolio provide scope for ongoing value creation and that the OML 127 and OML 130 assets provide the Company with a long life-cycle cash flowing asset base to support its business objectives over the long term.

The Company has delivered on its stated objective of implementing shareholder return programs, having instituted a dividend policy in February 2022 and a share buyback program in September 2022. These programs were delivered following consistent positive financial results for the Company, its strengthening cash position and stable business outlook. In 2022, the Board of Directors approved an annual dividend of \$0.05 per share paid in 2 instalments in March 2022 and September 2022 and a Normal Course Issuer Bid (share buyback) program of up to CAD 95 million or a maximum of 40,482,356 common shares. On 27 February 2023, the Board of Directors have approved a semi-annual dividend of \$0.025 per share payable in March 2023.

The Company continues to pursue an accretive acquisition-led strategy to purchase producing assets, primarily in West Africa, while ensuring the target has competitive metrics to complement the Company's existing low cost, high return portfolio. The Company may also pursue infrastructure-led exploration activities, such as the recently announced PSC's in Equatorial Guinea, where high quality prospects are near existing infrastructure that can support fast-track developments in case of successful discoveries.

HIGHLIGHTS AND OUTLOOK

2022 AND POST PERIOD HIGHLIGHTS

- The Company received five dividends totaling \$250.0 million in 2022 from its shareholding in Prime, including one dividend of \$37.5 million in Q4 2022.
- Cash and cash equivalents at December 31, 2022, of \$199.7 million (at December 31, 2021 - \$58.9 million), and an undrawn corporate loan facility of \$100.0 million.
- The Company launched a Normal Course Issuer Bid (share buyback) program on September 27, 2022. Since September 27, 2022, until February 24, 2023, a total of 20.2 million Africa Oil common shares have been repurchased, at a cost of \$44.8 million and 20.2 million shares have been cancelled.
- On February 27, 2023, the Company announced a semi-annual dividend of \$0.025 per share (approximately \$11.6 million) to be declared and paid at the end of March 2023.
- During 2022 the Company returned approximately \$63.3 million to its shareholders through the share buyback program and the dividend policy.
- WI 2P Reserves of 55.6 MMboe at December 31, 2022, net to the Company's 50% shareholding in Prime. Entitlement 2P Reserves of 63.9 Mmboe at December 31, 2022, net to the Company's 50% shareholding.
- Full-year 2022 production rates are in line with the mid-point of 2022 Management Guidance range. Prime recorded an average daily WI production of approximately 23,500 boepd and net entitlement production of 25,600 boepd, in each case net to Africa Oil's 50% shareholding. These compare with mid-range of 2022 Management Guidance figures of 24,000 boepd and 25,000 boepd for WI and net entitlement production, respectively.
- High impact appraisal drilling on Venus to commence imminently. Infill development drilling on Egina and Akpo commenced on February 22, 2022.
- In 2022, the Company recognized an impairment to its Kenyan intangible exploration assets of \$170.6 million (2021 - nil) due to continuing delays and uncertainties to the farm out process and the path to FID.
- On February 20, 2023, the Company announced that it had signed two PSC's with the Republic of Equatorial Guinea for offshore Blocks EG-18 and EG-31, subject to ratification by the local authorities. The Company will hold an 80% percent operated interest, subject to back in rights, in each block and presents a potential low cost, low risk development opportunity.

PRIME HIGHLIGHTS

- Selected Prime results net to the Company's 50% shareholding:
 - » In Q4 2022 and 2022, revenue of \$146.0 million and \$723.2 million respectively (Q4 2021 and 2021 - \$153.9 million and \$610.2 million respectively). Revenue has increased in 2022 due to higher realized oil price of \$84.5/bbl compared to 2021 (2021 - \$59.3/bbl);
 - » Repaid \$192.3 million in principal repayments on its RBL and PXF facilities and also drew \$75.0 million of its PXF Facility in 2022, significantly deleveraging its balance sheet;
 - » Cash position of \$165.9 million and debt balance of \$391.2 million at December 31, 2022; Robust Net Debt to EBITDAX for the twelve months ended December 31, 2022, of 0.4x (twelve months ended December 31, 2021 - 0.4x)⁽¹⁾;
 - » Combined with AOC cash and no debt, results in a net debt position of \$25.6 million (December 31, 2021 - \$190.6 million net debt);
 - » Average daily WI production of 21,300 boepd and economic entitlement production of 23,500 boepd (81% light and medium crude oil and 19% conventional natural gas) in Q4 2022 (Q4 2021 - 26,500 boepd and 28,500 boepd respectively);
 - » Average daily WI production of 23,500 boepd and economic entitlement production of 25,600 boepd (82% light and medium crude oil and 18% conventional natural gas) in 2022 (2021 - 27,400 boepd and 29,700 boepd respectively);
 - » In Q4 2022 and 2022, EBITDAX of \$140.7 million and \$600.5 million respectively (Q4 2021 and 2021 - \$163.4 million and \$654.5 million respectively)⁽¹⁾;
 - » In Q4 2022 and 2022, cash generated from operating activities before working capital of \$58.5 million and \$250.5 million respectively (Q4 2021 and 2021 - \$74.4 million and \$536.2 million respectively)⁽¹⁾. 2022 has decreased primarily from additional tax payments of \$148.5 million and in 2021 a net \$152.5 million was received by Prime relating to the Agbami Securitization Agreement deposit; and
 - » Prime and its partners are continuing the work for the early renewal of OML 130 license, which accounts for most of Prime's production, reserves and economic value; however, the process has taken longer than expected due to the critical Presidential election period in Nigeria.

(1) Definitions and reconciliations to the non-GAAP measures are provided on page 14.

HIGHLIGHTS AND OUTLOOK - CONTINUED

OUTLOOK

The Company's debt-free balance sheet, its share of Prime's cash flows and access to debt funding on competitive terms, supports a range of opportunities for the Company to achieve accretive growth and create shareholder value.

Nigeria

The year-end ("YE") 2022 reserves determination has delivered an after-tax Proved plus Probable reserves ("2P") NPV(10) valuation of \$1,232.0 million (YE'21: \$1,444.0 million). YE'22 WI and net entitlement 2P reserves of 55.6 MMboe (YE'21: 72.8 MMboe) and 63.9 MMboe (YE'21: 82.1 MMboe), respectively.

Lower 2P WI reserves compared with the previous year primarily due to 2022 WI production of 8.7 MMboe and technical revision of 8.4 MMboe. The technical revision is mostly due to a reduction in the expected ultimate recovery of the Egina field following the incorporation of production performance and the results of the 4D seismic processed during 2022.

OML 130 drilling campaign for 2023 commenced on February 22, 2022, with the spud of the first infill well on the Egina oil field. This is the first well in a multi-well program that is planned for up to 9 wells on Egina and Akpo in the license area. This is the first major multi-well drilling campaign since AOC acquired a 50% shareholding in Prime and is aimed at arresting the production decline. The campaign is expected to last for most of 2023.

Prime and its upstream partners are currently working on the early conversion to the new PIA terms of the OML 127 license. It is expected that OML 130 early renewal, which accounts for most of the reserves, production and value in Prime's portfolio can be delivered by H1 2023, although a successful outcome on this timeline can't be guaranteed. It is further expected that a successful early renewal of OML 130 could provide the basis for concurrent refinancing of Prime's RBL and PXF debt, that in turn could support Prime increasing cash available for distributions to its shareholders, including Africa Oil, or re-investments in the near term.

Early renewal of OML 130 could also facilitate the final investment decision for the Preowei oil discovery development project. Preowei oil field is to the north of Egina FPSO and is a low-risk development opportunity through a satellite subsea tie-back project to the Egina FPSO.

Venus Appraisal and Venus Extension Exploration Campaign

Management believe that the most impactful catalysts for the Company in 2023 are the Venus appraisal drilling results from Block 2913B and follow-on exploration on Block 2912, both located offshore Namibia. A multi-well program in Namibia due to commence imminently, targeting up to four wells (including the re-entry of the Venus-1X discovery well, in Block 2913B), to appraise the Venus discovery and to investigate a potential westerly extension of Venus, the Nara prospect on Block 2912. AOC has an interest in this program through its 30.9% shareholding in Impact.

Appraisal of Venus Discovery in Block 2913B (PEL 56)

Drilling of Venus-1A, the first appraisal well on the Venus discovery, located approximately 13km to the north of the Venus-1X discovery well, is expected to spud imminently, using the Tungsten Explorer drillship. The Deepsea Mira semi-submersible drilling rig will then be used to conduct a drill stem test at this location. The Deepsea Mira will then re-enter the Venus-1X well and conduct a flow test. The objective of this program is to further evaluate reservoir and deliver dynamic data.

Impact holds a 20% WI in PEL 56, which is operated by TotalEnergies who holds a 40% WI. QatarEnergy and NAMCOR respectively hold a 30% and 10% WI in PEL 56. The Company's effective interest is 6.2%.

Exploration and Potential Appraisal of Block 2912 (PEL 91)

Block 2912 may contain a highly material extension of the Venus field. Operations by TotalEnergies during 2023, on behalf of the JV, are designed to drill an exploration well and, if successful, test this potential extension of the Venus accumulation into Block 2912 and provide an understanding of the structure and reservoir quality.

TotalEnergies is expected to commence drilling operations in Block 2912 during mid-2023. Exploration well Nara-1X will be drilled and flow tested by the Tungsten Explorer and, if successful, an appraisal well, Nara-1A, will then be drilled and flow tested.

Impact holds an 18.89% WI in PEL 91, which is also operated by TotalEnergies who holds a 37.78% WI. QatarEnergy and NAMCOR respectively hold 28.33% and 15% WI in PEL 91. The Company's effective interest is 5.8%.

All drilling and flow test operations are expected to be completed by end of 2023.

Block 3B/4B, South Africa

The Company has a 20% operated interest in Block 3B/4B offshore South Africa. This block is on trend with Venus and Graff oil discoveries (the Company has no interest in Graff) in the Orange Basin. The application to extend the Block 3B/4B license and to move into the first extension period of 2 years was approved on October 27, 2022. The Company is also continuing its technical studies on Block 3B/4B with the aim of maturing exploration prospects for possible future drilling.

The Company and its JV partners are progressing plans to conduct a two-well campaign on Block 3B/4B and are in discussions with various potential partners to farm out up to a 55% gross working interest in the Block. The JV Partners have selected a leading South African environmental consulting firm to conduct a comprehensive Environmental and Social Impact Assessment (ESIA) process in preparation for permitting and drilling activity on the Block.

HIGHLIGHTS AND OUTLOOK - CONTINUED

Kenya

In 2021, the Company and its partners initiated a farmout process for Project Oil Kenya. A successful farmout is viewed by the Company as a critical step towards the FID for Project Oil Kenya being achieved and is viewed as a condition to FID. Discussions with the interested parties have taken longer than expected and there is no guarantee that the Company can successfully conclude a farmout to new strategic partner(s) on favorable terms. As a consequence of this increased uncertainty on a farm-out and FID, the Company has impaired the value of Project Oil Kenya by \$170.6 million.

2023 MANAGEMENT GUIDANCE

The Company's 2023 production will be contributed solely by its 50% shareholding in Prime. The 2023 Management Guidance includes WI production guidance range of 18,500 - 21,500 boepd and net entitlement production range of 20,500 - 23,500 boepd with approximately 82% expected to be light and medium crude oil and 18% conventional natural gas.

Net entitlement production estimate is based on a 2023 average Brent price of \$80.9/bbl being the average of the Brent forward curves between November 15, 2022, and January 15, 2023. Net entitlement production is calculated using the economic interest methodology and includes cost recovery oil, tax oil and profit oil and is different from WI production that is calculated based on project volumes multiplied by Prime's effective WI.

Prime is expected to sell three cargoes during Q1 2023. The first cargo of the year was sold at spot with the second and third cargoes sold with an average fixed Dated Brent price of \$76.1/bbl. Prime has 6 cargoes, scheduled between April and September 2023 with an average trigger price of \$70.0/bbl. None of these triggers have been reached as of the effective date of this MD&A. The actual sales price will include a quality and logistic price adjustment which means the final realized price will be different to the trigger price. See page 14 for further details on the crude marketing strategy.

Based on the above production and cargo lifting ranges and Prime's current 2023 forward sales contracts schedule, the Company's management estimate Prime to generate cash flow from operations⁽¹⁾ of approximately \$250.0 - \$330.0 million net to the Company's 50% shareholding.

Any dividends⁽²⁾ received by the Company from Prime's operating cash flows and cash on hand will be subject to Prime's capital investment and financing cashflows, including Prime's RBL and PXF interest payments and principal amortization. Net to the Company's 50% shareholding, Prime's 2023 capital investment is expected to be in the range of \$80.0 - \$100.0 million. Prime had a cash and cash equivalents balance of \$165.9 million net to the Company's 50% shareholding at December 31, 2022

2023 SUMMARY OF MANAGEMENT GUIDANCE AND 2022 ACTUALS

	2023 Guidance	2022 Actuals
Prime, net to AOC's 50% shareholding:		
WI production (boepd)	18,500 - 21,500	23,500
Economic entitlement production (boepd)	20,500 - 23,500	25,600
Cash flow from operations ⁽¹⁾ (million)	\$250.0 - \$330.0	\$250.5
Capital investment (million)	\$80.0 - \$100.0	\$28.4

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

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

THE COMPANY'S SHAREHOLDING AND WORKING INTERESTS

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

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

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

Africa Oil's Direct Working Interests ⁽³⁾

Country	Concession	License renewal	Working Interests
KENYA	Block 13T	December 31, 2021 ⁽⁴⁾	AOC 25% TotalEnergies 25% Tullow (Operator) 50%
	Block 10BB	December 31, 2021 ⁽⁴⁾	AOC 25% TotalEnergies 25% Tullow (Operator) 50%
	Block 10BA	April 22, 2023 ⁽⁵⁾	AOC 25% TotalEnergies 25% Tullow (Operator) 50%
SOUTH AFRICA	Block 3B/4B	October 26, 2024 ⁽⁶⁾	AOC (Operator) 20% Azinam 26% Ricocure (Pty) Ltd 54%
EQUATORIAL GUINEA	EG-18 EG-31	⁽⁷⁾	AOC (Operator) 80% GEPetrol 20%

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

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

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

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

(5) 10BA was included in the E&A plan, submitted as part of the Block 10BB/13T FDP.

(6) The application to extend the Block 3B/4B license and to move into the first extension period of 2 years was approved on October 27, 2022.

(7) The initial exploration phase was signed on February 17, 2023, pending government ratification, for an initial period of three years.

Information on the Company's equity interests in Africa Energy, Eco and Impact is included in 'Equity Investments in Associates' on page 16.

BUSINESS UPDATE

The economic environment for oil producers became more volatile in 2022 mainly due to the Russian invasion of Ukraine. The Brent oil price fluctuated significantly in 2022 with the average Brent oil price being approximately \$100.9/bbl in 2022, rising from an average of \$70.5/bbl in 2021. The invasion led to a number of countries placing sanctions on Russian companies and individuals, including oil and gas producers. This led to concerns about supply in the short term with the expectation that demand will continue to recover towards pre-pandemic levels in 2023. However, global cost inflation and economic recession concerns continue to highlight demand side risks that have also contributed to oil price volatility.

During 2022, Nigeria's economic activity and growth slowed on the back of declining oil production and softening non-oil economic activity. According to the World Bank, real GDP rose by 3.1 per cent year-on-year compared to the annual population growth of 2.6 per cent. Nigeria's inflation significantly increased to 21.1 per cent year-on-year in October 2022, increasing fiscal pressure on the government with surging subsidy costs. Despite higher oil revenues due to higher oil prices, the country's official reserves have fallen pressuring the Naira, Nigeria's currency, and business confidence. These fiscal and economic pressures have resulted in downgrading of Nigeria's rating, most recently in January 2023 by Moody's.

The business environment for Nigerian oil and gas industry in 2022 was dominated by the new PIA, that was enacted into law in 2021. The new regulatory and fiscal framework provided by the PIA is expected to provide a more stable investment outlook for the Nigerian upstream sector. The provisions in the PIA also allow for voluntary early conversion of the existing licenses, which could be accompanied by the renewal of licenses.

As has become customary in Nigeria since 2019, the 2023 annual budget for Nigeria has been accompanied by a proposed Finance Act that support the revenue needs indicated in the budget. In line with that, in late December 2022, both chambers of Nigeria's National Assembly passed the annual Finance Bill for 2023, which includes proposed changes to several different tax laws, including laws that can affect directly or indirectly the oil and gas industry. It is understood that the Finance Bill, which was passed on to the Presidential Office for its final ascension, has been returned to the National Assembly for further consultation and deliberation. Considering the recent Presidential and National Assembly elections and the transition to a new government, the timing for the final passage of the Finance Bill and its provisions, including changes that could be relevant to the oil and gas industry are uncertain. If there are adverse consequences to the oil and gas industry, this could cause further delay to the conversion of OML 127 and early renewal of OML 130.

Nigeria's general election took place on February 25, 2023 to elect the President and Vice President and members of the Senate and House of Representatives.

SHAREHOLDER RETURNS

The Company instituted a shareholder capital return program in 2022, in the form of payment of semi-annual dividends and share buy backs following consistent positive results for the Company and a strong cash position.

The Company launched a Normal Course Issuer Bid (share buyback) program on September 27, 2022. Since that date, until February 24, 2023, a total of 20.2 million Africa Oil common shares have been repurchased under the share repurchase program through the facilities of the TSX, Nasdaq Stockholm and/or alternative Canadian trading systems. A maximum of 40,482,356 Africa Oil common shares may be repurchased under the share buyback program over a period of twelve months ending September 26, 2023, or until such earlier date as the share repurchase program is completed or terminated by the Company.

On February 28, 2022, the Board of Directors approved an initial aggregate annual dividend of \$0.05 per share (approximately \$23.8 million) and paid \$0.025 per share (\$11.9 million) in both Q1 2022 and Q3 2022 in line with the minimum annual dividend target.

On February 27, 2023, the Company announced it will pay a semi-annual dividend of \$0.025 per share (approximately \$11.6 million) in March 2023. The Board of Directors view the 2023 annual distribution to be prudent with due consideration for the acquisition-led business strategy and the priority of maintaining a strong balance sheet in a range of market scenarios.

EQUITY INVESTMENT IN PRIME - NIGERIA

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 as well as a 50% share of its other comprehensive income or loss in the period in the Consolidated Statement of Net (Loss)/ Income and Other Comprehensive (Loss)/ Income. Dividends received are disclosed as a cash flow from investing activities in the Consolidated Statement of Cash Flows.

The main assets of Prime are an indirect 8% WI in OML 127 and an indirect 16% WI in OML 130. OML 127 is operated by affiliates of Chevron and covers part of the producing Agbami field. OML 130 is operated by affiliates of TotalEnergies and contains the producing Akpo and Egina fields. The three fields in these two OMLs are located over 100 km offshore Nigeria. All three fields have high quality reservoirs and produce light to medium sweet crude oil through FPSO facilities. Akpo and Egina also export associated gas which feeds into the Nigerian liquified natural gas plant, whilst Agbami associated gas is mostly reinjected.

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

BUSINESS UPDATE - CONTINUED**Production and Operations****Production Metrics - rounded**

	Unit	Three months ended		Year ended	
		December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Total gross field production ⁽¹⁾	boepd	323,400	408,100	363,700	426,000
Net to AOC's 50% shareholding:					
Average daily WI production ⁽¹⁾	boepd	21,300	26,500	23,500	27,400
Average daily entitlement production ⁽¹⁾	boepd	23,500	28,500	25,600	29,700
Oil volumes sold	MMbbl	1.4	2.0	7.4	8.5
Gas volumes sold	bcf	2.5	2.6	10.3	10.3
Oil/gas percentage split	%	81%/19%	83%/17%	82%/18%	84%/16%

(1) The Q4 2021 and 2021 comparative figures have been revised to ensure comparability and consistency of calculation as a result of a change in the conversion factor used in converting gas production in mmscfpd to boepd.

The full year production output was marginally below the midpoint of the management guidance range for WI production (22,500 – 25,500 boepd) and slightly above the midpoint for economic entitlement production (23,000 – 27,000 boepd). Q4 2022 gross field production was lower than Q4 2021, primarily as a result of expected natural reservoir decline and a planned maintenance outage at Agbami.

The Egina and Akpo infill drilling program, which was initially expected to commence in 2022, commenced on February 22, 2023. Between 4 and 6 development wells were initially expected to be drilled in OML 130 during 2022, these wells will now be drilled during 2023.

Net entitlement production is calculated using the economic interest methodology and includes cost recovery oil, tax oil and profit oil. It differs from WI production that is calculated based on field volumes multiplied by Prime's effective WI in each license. The cargoes lifted by Prime and described below represent Prime's share of cost oil, profit oil and part of income tax oil. The remaining part of income tax oil and royalties are either lifted and sold by the operator or paid in cash, to settle the tax and royalty obligations to the Nigerian state. From May 2022, Prime has been lifting its share of tax oil and paying PPT in cash for OML 130. Aggregate oil equivalent production data comprises of light and medium crude oil and conventional natural gas production net to Prime's WI in Agbami, Akpo and Egina fields. These production rates only include sold gas volumes and not those volumes used for fuel, reinjected or flared.

In Q4 2022, Prime was allocated 3 oil liftings with total sales volume of approximately 2.88 million barrels or 1.44 million barrels net to the Company's 50% shareholding at an average realized oil price of \$96.0/bbl. In Q4 2021, Prime was allocated 4 oil liftings with total sales volume of approximately 4.04 million barrels or 2.02 million barrels net to the Company's 50% shareholding at an average realized oil price of \$62.1/bbl.

In 2022, Prime was allocated 15 oil liftings with a total sales volume of approximately 14.86 million barrels or 7.43 million barrels net to the Company's 50% shareholding at an average realized oil price of \$84.5/bbl. In 2021, Prime was allocated 17 oil liftings with total sales volume of 17.00 million barrels or 8.50 million barrels net to the Company's 50% shareholding at an average realized oil price of \$59.3/bbl.

Financial

Prime's financial information is presented in note 5 of the financial statements on a 100% basis, with a reconciliation to the Company's 50% share of Prime's net assets and net income. In Q4 2022 and 2022, the share of profit from the 50% investment in Prime was \$2.9 million and \$146.6 million respectively (Q4 2021 and 2021 - \$56.1 million and \$224.4 million respectively). The share of profit from the 50% investment in Prime for Q4 2022 has been impacted by an impairment of \$41.2 million net to AOC, recognized by Prime. As at December 31, 2022, the Company's investment in Prime was \$513.7 million (as at December 31, 2021 - \$617.1 million).

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

BUSINESS UPDATE - CONTINUED**Financial Metrics**

		Three months ended		Year ended	
		December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Net to AOC's 50% shareholding:	Unit				
Total revenues	\$'m	146.0	153.9	723.2	610.2
Cost of Sales ⁽¹⁾	\$'m	41.5	63.7	278.2	271.0
Gross profit	\$'m	104.5	90.2	445.0	339.2
Opex/boe ^(2,3)	\$/boe	10.0	8.8	8.3	7.6
Cash (used in)/ generated from operating activities ⁽⁴⁾	\$'m	(13.9)	60.6	294.8	526.7
Free cash flow/boe ^(1,3)	\$/boe	(7.7)	28.5	32.2	33.0
Tax	\$'m	48.4	57.4	242.8	230.0
Capex	\$'m	10.1	10.0	28.4	25.3
Dividends paid	\$'m	37.5	50.0	250.0	200.0
Cash and cash equivalents	\$'m	165.9	258.9	165.9	258.9
Loans and borrowings	\$'m	391.2	508.4	391.2	508.4

(1) Given the nature of Prime's operations in terms of oil cargo liftings and the variability in their frequency from one quarter to next, the non-cash accounting treatment of underlift/overlift and the timing between recording revenues and receipts of sales cash, leads to high variability in Prime's quarterly financial metrics. Please refer to the commentary in the rest of this section for the specific details of this period's changes relative to corresponding historical period.

(2) Opex represents production costs presented on Prime's Statement of Net Income and Other Comprehensive Income in note 5 to the financial statements.

(3) Boe is calculated on an entitlement basis. Definitions and reconciliations to these non-GAAP measures are provided on pages 11 and 12.

(4) Cash generated from operating activities is lower in 2022 compared to 2021 as \$305.0 million was received by Prime relating to the Agbami Securitization Agreement deposit.

Prime recognized an impairment of \$82.3 million to its oil and gas interests primarily from a reduction in the expected ultimate recovery of the Egina field following the incorporation of the results of the 4D seismic acquired in late 2021 as well as an increase in the discount rate.

Revenues

	Unit	Three months ended		Year ended	
		December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Per Prime's financial statements					
Total revenue	\$'m	291.8	307.8	1,446.3	1,220.3
Net to AOC's 50% shareholding:					
Oil revenue	\$'m	138.7	125.4	627.7	503.5
Gas revenue	\$'m	5.0	5.8	20.3	49.4
PPT revenue	\$'m	(1.4)	18.5	54.8	41.9
Royalties	\$'m	3.7	4.2	20.4	15.4
Total revenue	\$'m	146.0	153.9	723.2	610.2
Realized oil prices ⁽¹⁾	\$/bbl	96.0	62.1	84.5	59.3
Oil volumes sold	MMbbl	1.4	2.0	7.4	8.5
Realized gas prices	\$/bcf	2.0	2.2	2.0	4.8
Gas volumes sold	Bcf	2.5	2.6	10.3	10.3

(1) Realized oil prices might be different to values calculated from the table above due to roundings.

BUSINESS UPDATE - CONTINUED

The increase in oil sales revenue in Q4 2022 was mainly due higher realized price of \$96.0/bbl in Q4 2022 compared with \$62.1/bbl in Q4 2021 partly offset by lower sales volumes. The increase in oil sales revenue in 2022 was also mainly due to a higher realized price of \$84.5/bbl in 2022 compared to \$59.3/bbl in 2021 despite lower volumes sold.

Gas sales revenue was recognized for the first time in Q3 2021, due to the signing of the OML 130 Gas Sales and Purchase Agreement in July 2021, which resolved historical gas sales from July 2018. As the terms for sale were only agreed in July 2021, Prime did not have the right to recognize gas revenue until then. Revenue from gas sales in 2021 included an additional \$29.2 million recognized, relating to the period from July 2018 to December 2020. Revenue from gas sales in Q4 2022 and 2022 totaled \$5.0 million and \$20.3 million respectively (Q4 2021 and 2021 - \$5.8 million and \$49.4 million).

PPT revenue is revenue recognized for tax oil, being Prime's share of entitlement production that is sold by the operators to settle its tax obligation to the Nigerian state. As the tax oil lifted by the operator on behalf of Prime is sold to 3rd party customers and proceeds are used to settle Prime's tax liabilities, this share of PPT is considered to be within the scope of IFRS 15, 'Revenue from contracts with customers'. Consequently, this portion of income tax is presented gross in revenue and offset in current income tax expense. From May 2022, Prime has been lifting its share of tax oil and paying PPT in cash for OML 130, therefore such revenue is already accounted in the oil volumes sold by Prime.

Agbami royalties are presented gross in both revenue and cost of sales.

Cost of sales

\$'m	Three months ended		Year ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Per Prime's financial statements				
Total cost of sales	82.9	127.4	556.3	542.1
Net to AOC's 50% shareholding:				
DD&A	34.5	37.3	131.4	151.7
Production costs	22.1	23.0	77.1	82.5
Movements on overlift/underlift balances	(23.4)	(4.9)	23.4	(16.0)
Royalties – oil and gas	8.3	8.3	46.3	52.8
Total cost of sales	41.5	63.7	278.2	271.0

Cost of sales has decreased in Q4 2022 compared with Q4 2021. This is mainly due a movement from a net overlift position in Q3 2022 to a net underlift position at Q4 2022 which has resulted in a credit in cost of sales and there was a small increase in the net underlift position in Q4 2021. The overlift/ underlift position represents Prime's excess of liftings over its entitlement share of production. The Q4 2022 position has also been valued at a higher price compared with Q4 2021.

Cost of sales has increased slightly in 2022, compared with 2021, mainly due to a decrease in the net underlift position in 2022 compared to an increase in the net underlift position in 2021, representing Prime's excess of liftings over its entitlement share of production. The overlifted position has also been valued at a higher price compared with 2021. This was offset by a reduction in the DD&A charge, which was mainly due to a change in the estimates in 2P reserves and economic cut-off dates.

Royalties were first recognized in Q3 2021 from the Akpo field for the period between November 2019 and December 31, 2021, implemented under the Deepwater Production Act and reaffirmed in the PIA. There are no royalties from the Egina field as it has been granted a royalty holiday until January 2024, being 5 years after first oil.

Royalties of \$84.0 million gross relating to Akpo have been reconciled with the NUPRC to November 2022. Payments were made in Q4 2022 for the period to November 2022. The unpaid amount related to December 2022, has been included in working capital as a current liability. The Akpo royalties were not previously accrued due to uncertainties over payment which were resolved when the PIA was enacted on August 16, 2021.

BUSINESS UPDATE - CONTINUED**Opex/boe**

Opex/boe is a non-GAAP measure which represents production costs on a per barrel of oil equivalent basis (using entitlement production). This allows the Company to better analyze performance against prior periods on a comparable basis. The most direct financial statement measure is production costs, disclosed in note 5 to the financial statements. Net entitlement production is calculated using the economic interest methodology and includes cost recovery oil, tax oil, profit oil and royalties and is different from WI production that is calculated based on project volumes multiplied by Prime's effective WI in each license.

	Unit	Three months ended		Year ended	
		December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Per Prime's financial statements					
Production costs	\$'m	44.1	46.0	154.1	165.1
Net to AOC's 50% shareholding:					
Production costs	\$'m	22.1	23.0	77.1	82.5
Entitlement production	MMboe	2.2	2.6	9.3	10.8
Opex/boe ⁽¹⁾	\$/boe	10.0	8.8	8.3	7.6

(1) The Q4 2021 and 2021 comparative figures have been revised to ensure comparability and consistency of calculation as a result of a change in the conversion factor used in converting gas production in mmscfd to boepd.

Production costs are largely stable when comparing Q4 2022 and Q4 2021.

Production costs have decreased in 2022 compared to 2021 with the operators continuing to implement cost reduction measures and in 2021, production costs included the execution of planned maintenance activities in Agbami which are not included in 2022.

The increase in opex/boe in Q4 2022 compared to Q4 2021 is primarily due to a decrease in entitlement production in Q4 2022. There was a smaller increase in opex/boe in 2022 compared to 2021 due to a decrease in entitlement production offset by a reduction in production costs.

Cash generated from operating activities

	Three months ended		Year ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
\$'m				
Per Prime's financial statements				
Cash (used in)/ generated from operating activities ⁽¹⁾	(27.7)	121.2	589.5	1,053.4
Net to AOC's 50% shareholding:				
Cash (used in)/ generated from operating activities	(13.9)	60.6	294.8	526.7
Working capital adjustments included in cash generated from operating activities				
Changes in trade and other receivables	(2.6)	(77.7)	18.7	(77.6)
Changes in over/underlift balances	(23.4)	(4.9)	23.4	(16.0)
Changes in other working capital balances	(46.4)	68.8	2.2	84.1
Total working capital adjustments	(72.4)	(13.8)	44.3	(9.5)
Cash generated from operating activities before working capital	58.5	74.4	250.5	536.2

(1) The Q4 2021 comparative figures have been revised to ensure comparability and consistency of calculation as a result of a change in the classification of items between of cash generated from operating activities, cash used in investing activities and cash used in financing activities.

Cash flow from operating activities is negative in Q4 2022 primarily due to a retrospective payment of \$59.0m for the period from November 2019 to November 2022 related to royalties recognized on sales made from the Akpo field. Royalties of \$42.0 million were reconciled with the NUPRC to Q1 2022 and estimated alongside the operator to November 2022. The related Q3 2022 accrual has been released in changes in other working capital balances. Tax payments were also higher in Q4 2022 compared to Q4 2021.

Cash generated from operating activities has decreased in 2022 from 2021 due to a \$152.5 million one off cash receipt in Q2 2021 from Equinor for its portion of the security deposit as stipulated within the Securitization Agreement as well as a decrease in income from investment tax credits, withholding tax incurred on an intergroup dividend declared included in other operating costs and higher tax payments offset by higher revenues generated in the period.

BUSINESS UPDATE - CONTINUED**FCF and FCF/boe**

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

		Three months ended		Year ended	
	Unit	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Per Prime's financial statements					
Total cash flow	\$'m	(287.6)	28.1	(186.2)	286.5
Add back dividends	\$'m	75.0	100.0	500.0	400.0
Add back debt service costs ⁽¹⁾	\$'m	178.7	20.1	285.8	330.9
Less security deposit received ⁽²⁾	\$'m	-	-	-	(305.0)
FCF	\$'m	(33.9)	148.2	599.6	712.4
Net to AOC's 50% shareholding:					
FCF	\$'m	(17.0)	74.1	299.8	356.2
Entitlement production	MMboe	2.2	2.6	9.3	10.8
FCF/boe ⁽³⁾	\$/boe	(7.7)	28.5	32.2	33.0

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

(2) The receipt of the deposit has been excluded from the calculation of free cash flow as any imbalance payments under the terms of any future agreement among the Agbami parties will be set-off against this security deposit. See Agbami Securitization Agreement on page 15 for further details of this security deposit.

(3) The Q4 2021 and 2021 comparative figures have been revised to ensure comparability and consistency of calculation as a result of a change in the conversion factor used in converting gas production in mmscfpd to boepd. The adjustment removing the working capital adjustments has been removed from the calculation to make FCF/boe in line with common presentation in the sector.

The figures used in the explanations for movements period on period below are based on Prime's gross balances per the financial statements.

FCF is negative in Q4 2022 primarily due to a retrospective payment of \$118.0m for the period from November 2019 to November 2022 related to royalties recognized on sales made from the Akpo field. Royalties of \$84.0 million were reconciled with the NUPRC to Q1 2022 and estimated alongside the operator to November 2022. Tax payments were also higher in Q4 2022 compared to Q4 2021.

FCF has decreased in 2022 compared 2021 primarily from an increase in cost of sales of \$7.2 million, a decrease in other operating income of \$242.6 million (primarily investment tax credits) in 2022 from 2021 and an increase to other operating costs of \$36.5 million offset by revenues being approximately \$226.0 million higher, as a result of higher realized prices of \$84.5/bbl compared with \$59.3/bbl, despite lower crude liftings.

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

BUSINESS UPDATE - CONTINUED**Tax**

The gross tax expense in Q4 2022 and 2022 was \$96.8 million and \$485.6 million respectively (Q4 2021 and 2021 - \$114.8 million and \$460.0 million). The tax expense is made up of the following items.

\$'m	Three months ended		Year ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Per Prime's financial statements				
Petroleum Profit Tax	143.1	116.5	590.0	439.2
Deferred tax income	(50.3)	(15.8)	(157.4)	(34.5)
Education tax	2.6	7.4	41.7	27.7
Corporate income tax	1.4	6.7	11.3	27.6
Total	96.8	114.8	485.6	460.0
Net to AOC's 50% shareholding:				
Total	48.4	57.4	242.8	230.0

Petroleum Profits Tax is a tax on the income of companies engaged in upstream petroleum operations. The PPT rate for petroleum operations under production sharing contracts with the Nigerian National Petroleum Corporation (NNPC) is 50%. In Q1 2022, Prime exhausted its unused investment tax credit pool and lower additional credits have since been generated on capital expenditure incurred on qualifying assets.

Education tax is imposed on every Nigerian company at a rate of 2.5% of the assessable profit in the period.

Capital expenditure

Capital expenditures in Q4 2022 and 2022 of \$10.1 million and \$28.4 million respectively related to development well planning, testing and pigging. Expenditures in Q4 2021 and 2021 of \$10.0 million and \$25.3 million respectively related to drilling and additions to facilities and included drilling activities on the Akpo field.

Dividends paid

In Q4 2022, Prime distributed one dividend payment totaling \$75.0 million with a net payment to the Company of \$37.5 million (Q4 2021 - one dividend with a net payment to the company of \$50.0 million). In 2022, Prime distributed five dividend payments totaling \$500.0 million with a net payment to the Company of \$250.0 million (2021 - four dividends with a net payment to the company of \$200.0 million).

In the period from completion of the Prime acquisition to the date of this MD&A, Prime has distributed dividend payments totaling \$1,300.0 million gross with a net payment to the Company of \$650.0 million related to its 50% interest, covering 125% of the closing cash payment in under three years.

Cash and Borrowing and Net Debt to EBITDAX

At December 31, 2022, Prime had a gross cash balance of \$331.7 million and debt of \$782.3 million (as at December 31, 2021 - \$517.9 million of cash and debt of \$1,016.8 million). Net to AOC's 50% shareholding, Prime has \$165.9 million of cash and debt of \$391.2 million (as at December 31, 2021 - \$258.9 million of cash and debt of \$508.4 million).

The debt outstanding has decreased slightly following an extra drawdown on the PXF Facility of \$150.0 million offset by gross repayments on the RBL and PXF Facility of \$384.5 million. Net to AOC's 50% shareholding, the overall debt reduced by \$117.3 million during 2022.

At December 31, 2022, Prime has a Net Debt of \$450.6 million (as at December 31, 2021 - Net Debt of \$498.9 million) and a Net Debt/EBITDAX of 0.4x for the twelve months ended December 31, 2022, (0.4x for the twelve months ended December 31, 2021) with Net Debt and EBITDAX both decreasing by similar proportions. The strength of this ratio demonstrates the low leverage within Prime compared with industry peers. This strong Net Debt/EBITDAX ratio, combined with the full repayment of the Company's Corporate Facility in 2021 means the Company and Prime are well placed to raise more debt in the future if required. Net Debt/EBITDAX is a non-GAAP measure, and a reconciliation is performed on page 14.

BUSINESS UPDATE - CONTINUED**Reconciliation of Prime's EBITDAX and Net Debt/EBITDAX**

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

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

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

\$'m	Three months ended		Twelve months ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Per Prime's financial statements				
Total profit	11.9	119.5	299.4	441.6
Add back:				
Tax	96.8	114.8	485.6	460.0
Finance costs	22.8	16.8	74.6	100.4
Finance income	(2.3)	(0.3)	(6.5)	(0.4)
DD&A and Impairment	151.2	74.6	345.0	303.4
Exploration expenses	0.9	1.3	2.8	3.9
EBITDAX	281.3	326.7	1,200.9	1,308.9
Loans and borrowings			(782.3)	(1,016.8)
Cash and cash equivalents			331.7	517.9
Net Debt			(450.6)	(498.9)
Net Debt/ EBITDAX			0.4	0.4
Net to AOC's 50% shareholding:				
Net Debt			(225.3)	(249.5)
EBITDAX			600.5	654.5
Net Debt/ EBITDAX			0.4	0.4
AOC Net Cash			199.7	58.9
AOC Net Cash/(Debt) inclusive of 50% Prime Net Debt			(25.6)	(190.6)

Forward Sales and Revised Crude Oil Marketing

Prior to May 2022, the cargoes that were allocated to Prime, accounted for Prime's cost oil and profit oil shares and excluded its tax oil and royalty barrels, which were sold by the operator on behalf of Prime, in order to settle Prime's tax and royalty obligations. From May 2022, Prime has been lifting its share of tax oil and paying PPT in cash for OML 130. The timing and number of cargo liftings can vary based on number of factors including reservoir performance, actual realized oil price, capex, opex, underlift/overlift positions and marine logistics. The revenue numbers reported for Prime include cost oil, profit oil, tax oil and royalty contributions.

Prime continues to use physical forward sales contracts for the marketing and sale of its lifted entitlement production, to manage commodity price risk and ensure stability in cash flows in line with the shareholders agreement. The average cargo lifted is for 1 million barrels of oil.

Prime historically fixed the Dated Brent component of the sales price in its forward sales contracts ahead of the lifting date, based on the forward curve price for the expected lifting date. During Q2 2022, Prime's Supervisory Board approved a revised crude marketing strategy that maintains the 50% - 70% coverage target for the next 12-months' scheduled cargoes but no longer fixes the Dated Brent component for all of the sales ahead of the lifting date, instead uses a trigger price mechanism. Under this new strategy, Prime gives an irrevocable instruction to an offtaker to fix the Dated Brent component of a cargo when the forward curve price goes below a certain trigger based on a percentage of the Brent forward curve (at the time when the instruction was given) for the month of the expected lifting. Otherwise, the cargo is sold on a spot basis. The current percentage used by Prime to set these thresholds is around 80% of the Brent forward curve and it can be altered depending on, among other factors, the shape of the forward curve.

For example, one cargo expected in April 2023 was set with a trigger of \$70.0/bbl. This means that if the forward curve drops below \$70.0/bbl for the month of the forecast cargo, the Dated Brent component of the forward sale price would be locked in. If the forward curve does not drop below \$70.0/bbl up to 31 days before the cargo is lifted, then Prime will sell on a spot basis. This policy allows Prime to retain price upside, while securing a minimum oil price for 50% to 70% of its oil entitlement in a falling oil price environment.

BUSINESS UPDATE - CONTINUED

Oil sales for the year were comprised of the following:

Oil Sales	Unit	2022				Total
		Q1	Q2	Q3	Q4	
Number of cargoes lifted		5	3	4	3	15
Of which:						
Sold forward with a fixed Dated Brent price ⁽¹⁾		5	3	3	-	11
Sold forward with a trigger price		-	-	1	3	4
		5	3	4	3	15
Gross crude oil sales						
Quantity in Mboe	Mboe	4,984.0	3,032.0	3,955.5	2,887.5	14,859.0
Average sales price	\$/ bbl	68.8	77.1	101.5	96.0	84.5
Average Bloomberg Dated Brent for the period	\$/ bbl	99.5	112.9	99.1	88.3	99.9

(1) One of these cargoes was sold in late May for a July delivery with a fixed Dated Brent component that came in line with the spot price.

Based on the table above, oil revenue net to AOC's 50% shareholding in Prime amounted to \$627.7 million for the year ended 31 December 2022 and \$138.7 million for the three months period ended 31 December 2022.

The lifting of OML 130 tax oil from May 2022 resulted in Prime being allocated more cargoes during 2022 than originally anticipated at start of 2022. Africa Oil had guided to 11-13 cargoes being allocated to Prime during the year; however, Prime was eventually allocated and sold a total of 15 cargoes. Most of these additional barrels were lifted during H2 2022. This resulted in changes in Prime's lifting schedule which are now reflected in the table above.

In the Q3 2022 Report to Shareholders, it was stated that one out of the four cargos lifted during Q3 2022 was at a fixed Dated Brent price. After further review it was determined that it was actually three out of the four cargos lifted during Q3 2022 that had a fixed Dated Brent price with one of these cargoes being sold in late May for a July delivery with a fixed Dated Brent component that came in line with the spot price. This has no impact on the financial statements.

Prime is expected to sell three cargoes during Q1 2023. The first cargo of the year was sold at spot with the second and third cargoes sold with an average fixed Dated Brent price of \$76.1/bbl. Prime has 6 cargoes, scheduled between April and September 2023 with an average trigger price of \$70.0/bbl. None of these triggers have been reached as of the effective date of this MD&A.

Agbami Securitization Agreement

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

Petroleum Industry Act

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

Other non-GAAP measures related to Prime

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

BUSINESS UPDATE - CONTINUED**THE SOUTH LOKICHAR DEVELOPMENT PROJECT (BLOCKS 10BB AND 13T) AND EXPLORATION BLOCK 10BA**

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

In December 2021, as per the license extension requirements provided by the GoK in September 2020, the Project Oil Kenya JV Partners submitted an FDP for the 10BB and 13T licenses. The submission of the FDP is followed by a period of review by the GoK, during which time the licenses remain in good standing. In Q2 2022, the 10BA license was extended to April 22, 2023.

The additions to intangible exploration assets during the year include exploration expenditures incurred directly relating to the projects, the recognition of a liability for the ongoing court case in Kenya following the decision by the High Court of Kenya, a provision of \$10.0 million related to unresolved Kenya joint venture matters and also included the recognition of a provision for costs to decommission and restore the exploration and development sites in Kenya.

The Company determined that there was an indicator of impairment for the Project Oil Kenya CGU. The Company and its JV partners are actively seeking strategic partners for the project and it is intended that a strategic partner will be secured ahead of FID. As there have been continuing delays and uncertainties to the farm out process, the Company considered this an indicator for impairment and therefore the Company has recorded an impairment charge of \$170.6 million.

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

BLOCK 3B/4B - SOUTH AFRICA

The Company farmed in to Block 3B/4B, offshore South Africa, in July 2019. The Company holds a 20% participating interest and operatorship. The initial results from the Venus discovery, along with the Graff discovery, has opened a new petroleum province in the Orange Basin with significant upside potential. These discoveries support the exploration case for Block 3B/4B.

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

The application to extend the Block 3B/4B license and to move into the first extension period of 2 years was approved on October 27, 2022. The work commitment for this extension period includes the completion of 2,020 square kilometres of 3D seismic reprocessing and integration of well and seismic data.

BLOCKS EG-31 AND EG-18 - EQUATORIAL GUINEA

The Company announced on February 20, 2023, that it has signed two PSC's with the Republic of Equatorial Guinea for offshore Blocks EG-18 and EG-31. These PSCs are subject to ratification by the country's government. Africa Oil will hold eighty per cent (80%) operated interests in each block with the balance to be held by GEPetrol, the national oil company of Equatorial Guinea. GEPetrol has the option of acquiring an additional fifteen percent (15%) participating interest in each block. Both blocks are covered by 3D seismic data and the total minimum work commitment for both blocks in the initial exploration periods is a combined total of USD 7 million, with no drilling commitment.

In Block EG-31 the Company has identified several gas-prone prospects in shallow water depths of less than 80 meters and close to existing infrastructure, including the offshore Alba gas field and the onshore Punta Europa Liquefied Natural Gas ("LNG") Terminal.

In Block EG-18 the Company has identified a potentially large and highly prospective basin floor fan prospect of Cretaceous age, that is similar to those within the Company's exploration portfolio in Namibia and South Africa.

The Company will be focused on maturing the identified exploration targets with the aim of attracting strategic partners ahead of exploration drilling in the next few years.

EQUITY INVESTMENTS IN ASSOCIATES

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

The Company held the following equity investments in associates as of December 31, 2022:

	Africa Energy	Eco	Impact ⁽¹⁾
Issued and Outstanding	1,407,812,249	365,682,014	931,523,968
Shares held by AOC at January 1, 2022	276,982,414	39,898,763	255,629,487
Shares acquired in the period	-	15,042,981	31,936,373
Shares held by AOC at December 31, 2022	276,982,414	54,941,744	287,565,860
AOC's holding (%) - December 31 2022	19.67%	15.02%	30.87%
AOC's holding (%) - December 31, 2021	19.80%	19.96%	30.88%
Share price on December 31, 2022	CAD \$0.19	CAD \$0.30	-
Exchange rate to USD on December 31, 2022	0.74	0.74	-

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

BUSINESS UPDATE - CONTINUED

Impact

Impact is a private UK oil and gas exploration company with assets located offshore Namibia, South Africa and West Africa. The Company's ownership interest is approximately 30.9% at December 31, 2022.

On February 24, 2022, Impact announced that the Venus-1X exploration well in Block 2913B, offshore Namibia was drilled to a total depth of 6,296 meters by the operator TotalEnergies. The operator reported discovery of a good quality, light oil-bearing sandstone reservoir of Lower Cretaceous age, with an estimated 84 meters of net pay. Up to three appraisal wells and a re-entry into Venus-1X are being planned, with spud expected in Q1 2023. The operator plans to conduct flow tests on both wells. The JV will also continue to progress its exploration activities on Blocks 2913B and neighboring Block 2912, including the acquisition of a 3D seismic survey.

The Company has an indirect effective interest of approximately 6.2% in Block 2913B through its shareholding in Impact.

On July 18, 2022, the Company subscribed for 31,936,373 shares in Impact for \$19.0 million and following the transaction the Company holds 30.9% of the enlarged share capital in Impact.

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, and an effective 4.9% participating interest in the Exploration Right for Block 11B/12B offshore South Africa. The Company's ownership interest is approximately 19.7% at December 31, 2022.

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

Africa Energy previously held a 90% participating interest in Block 2B. On April 20, 2021, Africa Energy closed a farmout transaction with Azinam and Panoro to transfer operatorship and an aggregate 62.5% participating interest in the Exploration Right for Block 2B in consideration for a carry of exploration costs on the next exploration well, Gazania-1 which was completed as a non-commercial well in November 2022. The Block 2B joint venture submitted a Production Right application to the Petroleum Agency of South Africa on November 15, 2022. The Gazania-1 well was logged, plugged and abandoned, and the joint venture partners are currently undertaking a detailed analysis of the results. Further analysis and integration of the well data will allow the joint venture to determine next steps on the block. Africa Energy retains a 27.5% participating interest in Block 2B.

Eco

Eco operates and holds WI in four exploration blocks offshore Namibia and two exploration blocks offshore South Africa, and has a direct WI and indirect interest in two exploration blocks offshore Guyana. The Company's ownership interest is approximately 15.0% at December 31, 2022.

Eco has made a number of corporate acquisitions in 2022. In January 2022 Eco purchased approximately 7.35% in JHI who has a 17.5% WI in the ExxonMobil-operated Canje Block, which is located offshore and north of Eco's Orinduik Block, and in March 2022 Eco acquired 100% of Azinam Group Limited. Key assets acquired are a 50% WI and Operatorship in Block 2B, where Africa Energy and Panoro Energy ASA are partners, and a 20% WI in Block 3B/4B where the Company is the Operator and 20% WI partner. Consideration for both transactions was made with Eco shares and diluted the Company's shareholding from 19.7% to approximately 16.3%.

In Q2 2022, Eco completed two equity raises for a total of \$37.8 million which were placed with, or subscribed for by, new and existing institutional investors. The Company subscribed for 15,042,981 common shares for a consideration of \$5.8 million and following this the Company held 16.9% of the enlarged share capital in Eco.

During June 2022, Eco signed a farmout agreement in which its wholly owned subsidiary Azinam Limited acquired an additional 6.25% participating interest in Block 3B/4B for consideration of \$10.0 million settled substantially in Eco shares. Eco received TSX Venture Exchange approval for the transaction on July 6, 2022. Following the approval of issuance, the Company held 15.9% of the enlarged share capital in Eco.

Since June 27, 2022, Eco cancelled a number of shares and issued shares, in which the Company did not participate, and following this the Company held 15.0% of the share capital in Eco.

On October 4, 2022, Eco commenced operations on the Gazania-1 exploration well using an island innovator semi-submersible drilling rig which had arrived at the block. The well was drilled 25km offshore in 150 meters of water and drilled to a depth of approximately 2,360 meters to target a stacked pay section up dip of the AJ-1 discovery and in the proven oil horizon. The well was plugged and abandoned after encountering non-commercial oil shows on November 22, 2022.

BUSINESS UPDATE - CONTINUED**ENVIRONMENTAL, SOCIAL AND GOVERNANCE**

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

Despite these efforts, a serious incident occurred on May 30, 2022, in Kenya at a Joint Venture location and associated facilities. During an operation to dispose of expired explosives, an uncontrolled explosion occurred, resulting in injury to two persons involved in the exercise. One of those people later died from his wounds. The other injured party was evacuated to Nairobi for medical treatment and has since recovered fully. Africa Oil and the Joint Venture Partners have since paid appropriate compensation under Kenyan law to the injured party and the family of the deceased. Africa Oil has participated in both the Operator's and Police investigations into the incident. All non-routine activities at the project were put on hold while the partners take corrective actions to address the factors that contributed to this event.

In order to comply with requirements imposed by IFC, one of the Company's major shareholders, independent monitoring reviews are conducted on a regular basis to assess compliance with IFC Performance Standards. The Q3 2022 IMG Review included a review of the fatal incident in Kenya, including two additional recommended corrective actions beyond those identified through the internal investigation. All Independent Monitoring Group reports can be found on Africa Oil's website.

In Nigeria, two independent assessments of Prime's Environmental Social Health and Safety performance conducted over Q1-Q3 2022 confirmed the robustness of Prime's approach to the management of Environmental, Social, Health and Safety (ESHS) issues. Additionally, in Q2 2022, Prime finalized and adopted an ESG strategy aligned with Africa Oil's ESG governance approach and strategic goals. Most notably, the ESG strategy commits Prime to achieve net zero emissions across Scopes 1 and 2 by 2050, with provisional interim targets for a 20% reduction by 2025 and 30% reduction by 2030. The interim targets will be confirmed following additional detailed technical assessments by and in cooperation with the operators of OML 127 and OML 130. Prime is providing ESG performance data to the Company on a quarterly basis and full-year data is presented in the 2022 Sustainability Report, which will be released after the 2022 financial statements and will be available on the Company's website. In addition to providing transparency to the Company's stakeholders, this data enables better engagement with the operating partners around performance and opportunities for improvement.

Prime's ESG strategy will help to support Africa Oil's own climate objectives. In 2021, the Company announced its intention to achieve carbon neutrality by 2025. This past year, the Company progressed development of a comprehensive Energy Transition Strategy including science-based short-, medium- and long-term targets towards net zero across Scope 1 and 2 emissions. The Company expects to be in a position to communicate the new strategy in 2023 subject to further detailed assessment.

Although the company continues to work with operating partners to realize operational reductions, the Company will largely rely on carbon offsets to meet our carbon neutrality target. The preference is to invest directly in nature-based carbon removal projects to develop a dedicated source of emissions offsets, where the Company has full transparency into and control over the project quality. Towards that end, the Company has started work to identify and develop two high-quality emissions offset projects in Kenya that also deliver social and environmental benefits.

Given the early-stage nature of these projects, there is risk they may not progress or deliver the volume of credits required. For that reason, the Company continues to screen the market for further opportunities, as well as secure existing credits over-the-counter. As a demonstration of our commitment toward carbon neutrality, Africa Oil purchased and retired 26,400 credits in 2022 from a REDD+ project in Guinea-Bissau at a cost of \$500,000, on top of the 30,088 clean cookstove credits purchased and retired in 2021.

SELECTED ANNUAL INFORMATION

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

For the years ended	December 31, 2022	December 31, 2021	December 31, 2020
Statement of Net (loss)/ income and Comprehensive (loss)/ income:			
Net (loss)/ income attributable to common shareholders	(60.3)	190.7	(17.6)
Data per Common Share:			
Basic (loss)/ income per share (\$/share)	(0.13)	0.40	(0.04)
Diluted (loss)/ income per share (\$/share)	(0.13)	0.40	(0.04)
Balance Sheet:			
Working capital	158.6	51.8	29.1
Total assets	917.7	991.6	910.5
Long-term liabilities	42.6	35.9	143.4

In 2022, the Company recorded a net loss attributable to common shareholders of \$60.3 million which is a decrease from the income recorded in 2021 of \$190.7 million as the Company recognized an impairment to its Kenyan intangible exploration assets of \$170.6 million and the Company's share of profit from Prime reduced by \$77.8 million. The reduction in share of profit from Prime was primarily from a gross impairment recognized by Prime of \$82.3 million to its oil and gas interests which has reduced the Company's share of its result in the joint venture. The net loss in 2022 is primarily made up of income from the Company's investment in Prime of \$146.6 million and the impairment loss on its Kenyan assets of \$170.6 million. In 2021, the Company achieved a record net income attributable to common shareholders of \$190.7 million. This compared with a net loss of \$17.6 million in 2020, due the profits from Prime and investments in associates being offset by the recognition of a \$215.6 million impairment of intangible exploration assets relating to Project Oil Kenya and Block 10BA in 2020. The net income in 2021 is primarily made up of income from the Company's investment in Prime of \$224.4 million.

In 2022, the basic loss and diluted loss per share was \$0.13 (2021 – basic earnings and diluted earnings per share of \$0.40). The decrease in earnings per share for 2022 compared to 2021 is primarily from the impairment of \$170.6 million recognized in 2022 which was not present in 2021. In 2021, the basic earnings and diluted earnings per share was \$0.40 (2020 – basic loss and diluted loss per share of \$0.04). The value went from a loss to earnings as there was a net loss attributable to common shareholders of \$17.6 million in 2020 as a result of a \$215.6 million impairment of intangible exploration assets relating to Project Oil Kenya and Block 10BA, and there was a net income attributable to common shareholders of \$190.7 million in 2021.

In 2022, the increase in working capital was driven by an increase in cash balances and the decrease to total assets was driven by the impairment to the Kenyan Intangible exploration assets of \$170.6 million and a lower carrying value of the Company's investment in Prime as dividends received from Prime were higher than the Company's share in the result of Prime, partly offset by the higher working capital balances. Residual dividends from Prime increased cash on hand in 2022, offset by the instituted shareholder capital return program in 2022 and cash injections in Eco and Impact. In 2021, an increase in working capital was driven by an increase in the cash balance and an increase to total assets was driven by the increase in cash and an increase in the value of the Company's investment in Prime. In 2021, cash increased as the Corporate Facility was repaid in full on November 30, 2021, and residual dividends received from the Company's investment in Prime resulted in an increase in cash on hand.

In 2022, long-term liabilities increased primarily from the recognition of a provision for site restoration costs in relation to the Kenyan exploration projects. In 2021, long-term liabilities decreased due to the full repayment of the Term Loan and Corporate Facility.

SUMMARY OF QUARTERLY INFORMATION

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

For the three months ended	31-Dec 2022	30-Sep 2022	30-Jun 2022	31-Mar 2022	31-Dec 2021	30-Sep 2021	30-Jun 2021	31-Mar 2021
Share of (loss)/ profit from equity investments in joint venture and associates	(5.1)	76.5	13.3	53.7	61.8	69.7	47.4	47.9
Net (loss)/ income attributable to common shareholders	(182.2)	70.6	5.7	45.6	54.9	58.5	38.4	38.9
Weighted average shares – Basic '000	475,074	477,311	477,166	475,090	474,192	473,505	473,253	472,147
Weighted average shares – Diluted '000	475,074	491,131	490,562	485,113	479,611	477,799	476,398	475,011
Basic (loss)/ income per share (\$)	(0.39)	0.15	0.01	0.10	0.12	0.12	0.08	0.08
Diluted (loss)/ income per share (\$)	(0.39)	0.14	0.01	0.09	0.12	0.12	0.08	0.08

SUMMARY OF KEY ITEMS OF FINANCIAL PERFORMANCE IN THE THREE MONTHS AND YEARS ENDED DECEMBER 31, 2022, AND DECEMBER 31, 2021

	Three months ended		Year ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Total operating (loss)/ income	(5.1)	61.8	138.4	226.9
Salaries and benefits	(2.3)	(2.8)	(6.2)	(6.3)
Share-based compensation	(2.5)	(1.4)	(9.5)	(6.3)
Professional fees and other general and administrative expenses	(2.1)	(0.8)	(11.3)	(5.4)
Impairment of intangible exploration assets	(170.6)	-	(170.6)	-
Net operating (loss)/ income	(182.6)	56.8	(59.2)	208.9

Total and net operating (loss)/income

In Q4 2022 and 2022, the Company recognized net operating losses amounting to \$182.6 million and \$59.2 million respectively (net operating income in Q4 2021 and 2021 - \$56.8 million and \$208.9 million respectively). There is a net operating loss in Q4 2022 and 2022 as an impairment to the Kenyan intangible exploration assets was recognized and the Company's share of the result in Prime has decreased significantly as a result of an impairment recognized by Prime to its oil and gas properties.

In Q4 2022 and 2022, included in the Company's share of profit from equity investments is profit from its 50% investment in Prime of \$2.9 million and \$146.6 million (Q4 2021 and 2021 - \$56.1 million and \$224.4 million respectively).

The figures used in the explanations for movements period on period below are based on Prime's gross balances per the financial statements.

Prime recorded a decrease in revenues of \$16.0 million in Q4 2022 compared to Q4 2021, mainly from lower volumes sold compared to Q4 2021 despite a higher realized price of \$96.0/bbl in Q4 2022 compared with \$62.1/bbl in Q4 2021. Prime also recorded a decrease in cost of sales of \$44.5 million, mainly driven by a higher underlift movement during Q4 2022 compared to Q4 2021. This resulted in a higher gross profit. There was a decrease in other operating income of \$74.2 million, an impairment expense of \$82.3 million recognized on oil and gas interests, offset against a decrease in the tax expense of \$18.0 million. Other operating income primarily consists of investment tax credits which can be offset against PPT. Therefore, a decrease in tax credits has also resulted in an increase in PPT. This has resulted in Prime's profit in Q4 2022 decreasing by \$107.6 million compared to Q4 2021.

Prime recorded an increase in revenues of \$226.0 million in 2022 compared to 2021, due to higher realized prices of \$84.5/bbl compared with \$59.3/bbl, partly offset by slightly lower crude liftings. Cost of sales increased by \$14.2 million mainly from a decrease in the net underlift position in 2022 compared to an increase in the net underlift position in 2021 partly offset by lower depletion charges in 2022. This resulted in a higher gross profit. There was a decrease in other operating income of \$242.6 million, an increase in other operating costs of \$36.5 million, mainly from withholding tax incurred on an intergroup dividend declared of \$33.8 million, and an increase to the tax expense in 2022 of \$25.6 million, as a result of investment tax credits decreasing. Prime recognized an impairment of \$82.3 million to its oil and gas interests from a reduction in the expected ultimate recovery of the Egina field following the incorporation of the results of the 4D seismic acquired in late 2021 as well as an increase in the discount rate. There has also

SUMMARY OF QUARTERLY INFORMATION - CONTINUED

been a decrease in finance costs of \$25.8 million as in 2021 there was a loss on derivative financial instruments of \$30.6 million which Prime did not have in 2022 and also the average carrying value of external borrowings has decreased. This has resulted in Prime's profit 2022 decreasing by \$142.2 million compared to 2021.

Salaries and benefits

Salaries and benefits have decreased in Q4 2022 compared to Q4 2021 from higher time writing charges in Q4 2022.

In 2022, salaries and benefits have stayed consistent compared to 2021.

Share based compensation

The share-based compensation charge relates to the LTIP and Stock Option Plan.

There is an increase in the expense in Q4 2022 from Q4 2021 as the share price of the Company was higher in Q4 2022 compared to Q4 2021.

There is an increase in the charge in 2022 compared to 2021 as the Q1 2022 charge was \$2.6 million higher than in Q1 2021. This was due to a larger number of share units being valued at a higher share price than in Q1 2021.

Professional fees and other general and administrative expenses

In Q4 2022 and 2022, the professional fees and other general and administrative expenses were higher compared to Q4 2021 and 2021 as there was increased expenditure on legal and professional fees relating to corporate development activities.

Impairment of intangible exploration assets

In 2022, the Company recorded an impairment to its Kenyan Exploration assets of \$170.6 million (2021 – nil).

The Company determined that there was an indicator of impairment for the Project Oil Kenya CGU. The Company and its JV partners are actively seeking strategic partners for the project and it is intended that a strategic partner will be secured ahead of FID. As there have been continuing delays and uncertainties to the farm out process, the Company considered this an indicator for impairment and therefore the Company has recorded an impairment charge of \$170.6 million.

SUMMARY OF KEY ITEMS OF FINANCIAL POSITION AS AT DECEMBER 31, 2022, AND DECEMBER 31, 2021

As at	December 31, 2022	December 31, 2021
Assets		
Equity investment in joint venture	513.7	617.1
Equity investments in associates	137.3	120.7
Intangible exploration assets	63.6	194.3
Cash	199.7	58.9
Liabilities		
Long-term debt	-	-

Equity investment in joint venture

As at December 31, 2022, the Company's investment in Prime was \$513.7 million compared to \$617.1 million as at December 31, 2021. The carrying value of the investment increased from the share of Prime's profit of \$146.6 million in 2022, offset by dividends received of \$250.0 million in 2022.

Equity investments in associates

As at December 31, 2022, the Company's investment in associates was \$137.3 million compared to an investment value of \$120.7 million as at December 31, 2021. The increase in the investment is primarily due to additional investments in Eco of \$5.8 million and Impact of \$19.0 million, reduced by a net share of their losses in the period.

SUMMARY OF QUARTERLY INFORMATION - CONTINUED

Intangible exploration assets

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

Kenya

The additions to intangible exploration assets during the year include exploration expenditures incurred directly relating to the projects, the recognition of a liability for the ongoing court case in Kenya following the decision by the High Court of Kenya, a provision of \$10.0 million related to unresolved Kenya joint venture matters and also included the recognition of a provision for costs to decommission and restore the exploration and development sites in Kenya.

The Company's Kenyan Branch, of its wholly owned subsidiary, Africa Oil Kenya B.V. ("AOKBV"), 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.

On April 8, 2020, Africa Oil announced that Kenya Tax Appeals Tribunal ("TAT") ruled in favour of the Company with regards to the CIT assessments and in favour of KRA with regards to the VAT assessments. Subsequently, AOKBV filed an appeal with the High Court of Kenya to challenge the VAT decision and KRA filed an appeal in relation to the CIT decision.

On November 30, 2022, the High Court of Kenya announced its decisions on AOKBV's and KRA's Tax Appeal. AOKBV's appeal with regard to the VAT assessment was partly successful and the High Court concluded that AOKBV owes VAT in an amount of Kenyan Shillings 2,293,334,065 (approximately US\$18.7 million). The KRA's appeal with regard to the CIT decision was also partly successful and the High Court concluded that the KRA was correct to disallow certain costs claimed by AOKBV; however, it is not expected to have a material cashflow impact.

AOKBV maintains its position that the VAT assessment is without merit and has duly filed a Notice of appeal with Kenya's Court of Appeal to challenge the position. The KRA has filed a Notice of Appeal regarding the CIT assessment. There is uncertainty as to the final outcome of the ongoing court case and therefore, the final outcome is indeterminable at this time. Although AOKBV is taking legal advice on the options available to it in view of this decision, including the option to appeal, a liability has been recognised as at December 31, 2022, as a result of the High Court ruling.

The Company determined that there was an indicator of impairment for the Project Oil Kenya CGU. The Company and its JV partners are actively seeking strategic partners for the project and it is intended that a strategic partner will be secured ahead of FID. As there have been continuing delays and uncertainties to the farm out process, the Company considered this an indicator for impairment and therefore the Company has recorded an impairment charge of \$170.6 million.

South Africa

The Company holds a 20% participating interest in the Block 3B/4B Exploration Right. In Q4 2022 and 2022, the Company incurred \$0.2 million and \$0.6 million respectively, on Block 3B/4B reevaluating 2D and 3D seismic data previously acquired (Q4 2021 and 2021 - \$0.1 million and \$0.4 million respectively).

Cash

As at December 31, 2022, the Company had \$199.7 million cash on hand, compared with a cash balance of \$58.9 million as at December 31, 2021. The increase to cash is due to dividends received from Prime in 2022 of \$250.0 million offset by the dividend payments to shareholders in Q1 2022 and Q3 2022 for \$23.8 million, share buybacks under the launched Normal Course Issuer Bid amounting to \$39.9 million and other corporate costs including additional equity injections into Eco and Impact.

Long-term debt

As at December 31, 2022, and December 31, 2021, the Company had no long-term debt following the full repayment of the Corporate Facility in November 2021.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2022, the Company had cash of \$199.7 million and working capital of \$158.6 million. The Company's primary source of liquidity is dividends received from Prime. If Prime experiences operational delays, reduced performance or similar adverse conditions, or reinvest their free cash flow, the dividends received could be reduced in future periods.

Corporate Facility

The Company has an undrawn Corporate Facility arranged in May 2021 for three years. The facility amount is \$100.0 million, available until May 2023. The Corporate Facility carries interests of 1 month-LIBOR plus a margin of 6.5% in the first year, 7.0% in the second year and 7.5% in the third year.

The principal amounts, if drawn, may not exceed \$80.0 million by September 30, 2023, and \$50.0 million by February 29, 2024. Any loan repayments are calculated to be protective of the Company's liquidity position. Prior to maturity, repayments under the loan are made in the month a dividend is received from Prime. The Company's loan repayments reduce commensurately with any reduction in dividends from Prime. If drawn, the loan principal would be repaid by the lesser of 100% of the dividends received from Prime, and of an amount that ensures the Company hold a minimum projected consolidated cash balance in the six months following the repayment.

On October 20, 2022, the Company agreed amendments which will become effective on licence renewal being received on OML 130. The Corporate Facility will be increased from \$100.0 million to \$200.0 million and can be drawn until October 20, 2023. The maturity date has been extended to October 20, 2025.

The Corporate Facility is subject to financial and liquidity covenants. The Company has been in compliance with the covenants in the three months ended December 31, 2022. The Company has no off-balance sheet arrangements.

Future Funding Outlook

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

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

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

OUTSTANDING SHARE DATA

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

Common shares outstanding	462,790,680
Outstanding share purchase options	3,000,616
Outstanding performance share units	7,641,886
Outstanding restricted share units	2,066,248
Full dilution impact on common shares outstanding	475,499,430

RELATED PARTY TRANSACTIONS

Transactions with Africa Energy:

As at December 31, 2022, the Company's ownership interest in Africa Energy is approximately 19.7%.

Services Agreements:

	Service provider	Service provided	Three months ended		Years ended	
			December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
General Management and Service Agreement	AOC to Africa Energy	Administrative services provided to Africa Energy.	-	-	-	0.1
General Technical and Administrative Service Agreement ⁽¹⁾	Africa Energy to AOSAC	Technical and administrative services relating to its operating interest in Block 3B/4B, South Africa.	0.1	0.1	0.4	0.4

(1) Contract date July 1, 2020

In December 2022, the Company signed a Promissory note with Africa Energy, alongside other parties, with a total value of \$5.0 million, in which the Company agreed to provide \$2.0 million. This amount was drawn in December 2022. The note carries interest of 10% from drawdown until October 31, 2023, at which time the annual interest rate for any outstanding amount increases to 15%, retrospectively. The maturity date of the loan is January 31, 2024.

Transactions with Eco:

On June 28, 2021, the Company subscribed for 5,945,913 new common shares at a price of CAD\$0.41 per new common share totaling \$2.0 million and was granted the same number of warrants to acquire common shares at the same price over a two-year period.

On April 6, 2022, the Company subscribed for 10,178,116 common shares for a consideration of \$4.0 million and following this the Company held 17.3% of the enlarged share capital in Eco. On June 27, 2022, the Company subscribed for 4,864,865 common shares for a consideration of \$1.8 million and following TSX Venture Exchange approval the Company held 15.9% of the enlarged share capital in Eco.

As at December 31, 2022, the Company's ownership interest in Eco is approximately 15.0%.

Transactions with Impact:

On July 18, 2022, Impact made an open offer to existing shareholders to raise up to \$60.0 million through the issue of ordinary shares. The Company subscribed for 31,936,373 shares in Impact for \$19.0 million and following the transaction the Company holds 30.9% of the enlarged share capital in Impact.

As at December 31, 2022, the Company's ownership interest in Impact is approximately 30.9%.

Remuneration of Directors and Senior Management:

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

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

For the years ended	December 31, 2022	December 31, 2021
Non-Executive Directors' fees	0.4	0.4
Non-Executive Directors' share-based compensation	1.0	0.9
Managements' short-term wages and benefits	3.8	3.1
Managements' share-based compensation	4.8	3.4
	10.0	7.8

COMMITMENTS AND CONTINGENCIES

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

PRIME OIL AND GAS COÖPERATIEF U.A:

Under the Prime Sale and Purchase Agreement completed on January 14, 2020, a deferred payment of \$118.0 million, subject to adjustment, may be due to the seller contingent upon the timing and final OML 127 tract participation in the Agbami field. The signing of the Securitization Agreement by Prime has led to the Company reassessing its view of the likelihood of making a contingent consideration payment to the seller. The signing of the Securitization Agreement by Prime does not constitute a redetermination of the tract participation and therefore does not trigger the payment of a contingent consideration under the Sale and Purchase Agreement but, at the Company's discretion, could trigger discussions with the seller. The outcome of this process is uncertain. In 2021, the Company recorded \$32.0 million as contingent consideration and increased the Company's investment in Prime. As at December 31, 2022, this remains the best estimate of the most likely outcome.

KENYA LICENSE COMMITMENTS:

Under the terms of the Block 10BA PSC, the Company received approval from the Ministry of Petroleum and Mining for the Republic of Kenya for an extension to the second additional exploration period to April 26, 2023, allowing time for the joint venture to include and align the Block 10BA work program with the proposed FDP for Blocks 10BB and 13T. During the second additional exploration period, the Company and its partners are obligated to complete geological and geophysical operations, including either 500 km² of 2D or 45 km² of 3D seismic. Additionally, the Company and its partners are obligated to drill one exploration well. The total minimum gross expenditure obligation for the second additional exploration period is \$19.0 million. The JV partners have not provided any letters of credit or guarantees for this commitment. The Company has presented a plan for exploration and appraisal in Block 10BA in the FDP. This drilling plan was formally submitted in December 2021. At December 31, 2022, the Company's working interest in Block 10BA was 25%.

SOUTH AFRICA LICENSE COMMITMENTS:

The application to extend the Block 3B/4B license and to move into the first extension period of 2 years was approved on October 27, 2022. The work commitment for this extension period includes the completion of 2,020 square kilometres of 3D seismic reprocessing and integration of well and seismic data. At December 31, 2022, the Company's WI in Block 3B/4B was 20%.

CRITICAL ACCOUNTING ESTIMATES

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

USE OF ESTIMATES

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

The Company's significant accounting policies can be found in the Company's Consolidated Financial Statements for the year ended December 31, 2022.

INTANGIBLE EXPLORATION ASSETS

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

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

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

CRITICAL ACCOUNTING ESTIMATES - CONTINUED

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

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

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

EQUITY METHOD

Investments in joint ventures and investments in associates are accounted for using the equity method. Investments of this nature are recorded at original cost. Investments in joint ventures or associates which arise from a loss in control of a subsidiary are recorded at fair value on the date of the loss of control. The investment is adjusted periodically for the Company's share of the profit or loss of the investment after the date of acquisition. The investor's share of the profit or loss of the investee is also recognized in the Company's Consolidated Statement of Net Income and Comprehensive Income. 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 forward sales arrangements, the loan facility, and any operational and contractual implications on the future dividend stream when assessing for impairment indicators. When any impairment indicators are identified, the entire carrying amount of the investment in the associate is compared to recoverable amount, which is the higher of value in use or fair value less costs of disposal. The Company has determined the recoverability of its investment will be in the form of dividends, and therefore has assessed the impact of current conditions on the recoverability of the dividends relative to the investment carrying value. The key assumptions the Company uses for estimating dividends include future commodity prices, operational scenarios provided by Prime, the timing of future cash flows and discount rates.

CONTINGENT CONSIDERATION

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

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

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

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

DISCLOSURE CONTROLS AND PROCEDURES

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2022, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As at December 31, 2022, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed. Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ADVISORY REGARDING OIL AND GAS INFORMATION

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

In this report, references are made to historical and potential future oil production in Nigeria and Kenya. In all instances these references are to light and medium crude oil category in accordance with NI 51-101 and the COGE Handbook.

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

RISK FACTORS

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

The risks noted in the risk factors section comprises those that can materially affect the figures presented and disclosures in the Financial Statements and MD&A. The Company's Annual Information Form contains a more comprehensive list of risks that can affect the Company.

Inflation Risk

A failure to secure the services and equipment necessary for the Company's operations for the expected price, on the expected timeline, or at all, may have an adverse effect on the Company's financial performance and cash flows. The Company's operating and capital costs could escalate and become uncompetitive due to supply chain disruptions, inflationary cost pressures, equipment limitations, escalating supply costs, commodity prices, and additional government intervention through stimulus spending or additional regulations.

The Company's inability to manage costs may impact project returns and future development decisions, which could have a material adverse effect on its financial performance and cash flows. In addition, with rising inflation levels combined with global cost of living expenses, the Company may be faced with the challenge of how to attract and retain employees.

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 conflict in Ukraine has impacted global markets and may continue to result in increased volatility in financial markets and commodity prices.

The Company does not have a direct exposure to operations in Ukraine or Russia and does not have any business relationships with any sanctioned entities or people. The Company will continue to review all its engagements with new stakeholders to ensure this remains the case.

The Company may undertake hedging activities when efficient to do so, however, they may not fully mitigate, in whole or in part, the risk and effect 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.

Liquidity and Cash Flow

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

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

The Company periodically receives dividends from Prime related to the Company's 50% shareholding in Prime, the amount and timing of which the Company does not control. However, a significant reduction, infrequent distributions, 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.

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.

RISK FACTORS - CONTINUED

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:

- Inability to achieve early licence renewal
- decline in the demand for oil and natural gas
- changes to the applicable tax and other laws and regulations in Nigeria
- Partner consensus
- 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
- 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
- global health emergencies

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.

Credit Facilities

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

Financial Statements Prepared on a Going Concern Basis

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

Substantial Capital Requirements

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

To finance its future acquisition, exploration, development and operating costs, the Company may require financing from external sources, including from the issuance of new shares, issuance of debt or execution of WI farmout 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.

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.

RISK FACTORS - CONTINUED

Foreign Currency Exchange Rate Risk

The Company is exposed to changes in foreign exchange rates as expenses in international subsidiaries, oil and gas expenditures, or financial instruments may fluctuate due to changes in rates. The Company's exposure is partially offset by sourcing capital projects and expenditures in US dollars. The Company had no forward exchange contracts in place as at December 31, 2022.

Credit Risk

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

Limitation of Legal Remedies

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

Decommissioning

The Company is responsible for compliance with all applicable laws, regulations and contractual requirements regarding the decommissioning, abandonment and reclamation of the Company's assets at the end of their economic life, the costs of which may be substantial. It is not possible to predict these costs with certainty since they will be a function of requirements at the time of decommissioning, abandonment and reclamation and the actual costs may exceed current estimates. Laws, regulations and contractual requirements with regard to abandonment and decommissioning may be implemented or amended in the future.

Risks Inherent in Oil and Gas Exploration, Development, and Production

Oil and gas operations involve many risks, which, even with the combination of experience, knowledge, and careful evaluation may not be able to overcome. The long-term commercial success of Africa Oil 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. It is difficult to project the costs of implementing an exploratory, appraisal or development 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, 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.

Africa Oil's business is subject to all 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.

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.

Government Regulations and Tax Risk

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 a windfall tax, 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.

As has become customary in Nigeria since 2019, the 2023 annual budget for Nigeria has been accompanied by a proposed Finance Act that supports the revenue needs that the budgets indicate. In line with that, in late December 2022, both chambers of Nigeria's National Assembly passed the annual Finance Bill for 2023, which includes proposed changes to several different tax laws, including laws that can affect directly or indirectly the oil and gas industry. It is understood that the Finance Bill, which was passed on to the Presidential

RISK FACTORS - CONTINUED

Office for its final ascension, has been returned to the National Assembly for further consultation and deliberation. Considering the recent Presidential and National Assembly elections and the transition to a new government, the timing for the final passage of the Finance Bill and its provisions, including changes that could be relevant to the oil and gas industry are uncertain. If there are adverse consequences to the oil and gas industry, this could cause further delay to the conversion of OML 127 and early renewal of OML 130.

Nigeria's general election took place on February 25, 2023 to elect the President and Vice President and members of the Senate and House of Representatives.

Investments in Associates and Investments in Joint Ventures

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

International Operations

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

Different Legal System and Litigation

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

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

Anti-Bribery and Anti-Corruption Laws

The Company is subject to various anti-bribery and anti-corruption laws, including the Corruption of Foreign Public Officials Act (Canada) and the Bribery Act 2010 (United Kingdom). Failure to comply with such laws could subject the Company to, among other things, reputational damage, civil and criminal penalties, other remedial measures and legal expenses which could adversely affect the Company's business, results in operations, and financial condition. Weaknesses in the anti-corruption legal and judicial system of certain countries may undermine the Company's or a host government's capacity to effectively detect, prevent and sanction corruption. 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.

RISK FACTORS - CONTINUED

Shared Ownership and Dependency on Partners

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

Risks Relating to Concessions, Licenses and Contracts

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

Risks Relating to Audits and Cost-Recovery Oil (Kenya)

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

CLIMATE RISKS

Market Risks

Changing consumer preferences for low carbon sources of energy, transport and products and services may erode demand for oil and gas as clean alternatives come to market and gain scale. Reduced demand for oil and gas may result in stranded reserves or resources and negatively impact the Company's valuation and share price. In addition to limiting the Company's ability to sell into the market, these trends could lead to lower commodity prices in the medium and long-term, putting further pressure on revenues. In the short-term, unbalanced investment in traditional vs. new energy technologies and sources, combined with uncertain demand dynamics, may lead to commodity price volatility. Supply chains may also become constrained, as suppliers adjust their strategies and product mix in response to the energy transition, resulting in increasing costs for some goods and services.

The Company has conducted scenario analysis, which suggests the current portfolio remains competitive in a low demand environment. We will update the analysis on a regular basis and ahead of new project sanction to minimise the risk of stranded assets. In order to remain resilient in an uncertain and volatile future commodity environment, the Company will work with and through its partners to reduce operational costs as much as possible without sacrificing health and safety or longer-term efficiency and environmental goals. Though Africa Oil does not directly control procurement decisions associated with our assets, the Company will work with our partners to ensure adequate contingency for cost inflation is incorporated into capital and operating budgets and that costs are controlled within budget. Additionally, the Company will maintain a prudent budget and financial strategy, including hedging as appropriate, to manage oil price volatility ensure the business remains resilient in a low oil price environment.

At the same time, markets for new products and services may present opportunities for the Company to expand or diversify the Company's lines of business, helping to grow or at least offset potential losses of revenue associated with our traditional business activities as demand for oil and gas declines or even grow revenue. For instance, we are exploring development of an offset project in Kenya of sufficient scale to help mitigate both our own emissions as well as potentially third-party emissions.

Litigation Risks

Climate-related litigation is a rapidly evolving and increasingly important issue for our industry. The risk of legal challenges could rise as the costs of climate change mitigation and adaptation increase, and as more climate laws and agreements are put in place. Climate-related litigation could result in liabilities or loss of license related to current or historical activities' contribution to global emissions. We do not consider Africa Oil at immediate risk of climate litigation but are monitoring developments closely. Even if the Company is not directly targeted by litigation, operations may be indirectly impacted by outcomes in related cases involving other oil and gas companies in jurisdictions where we operate. The Company will seek legal counsel as required to remain abreast of potential legal action and its implications for our business.

FORWARD-LOOKING STATEMENTS - CONTINUED

Regulatory Risks

Since the Paris Agreement was signed in 2015, countries have steadily enacted policies to enable the transition to a low carbon future and meet their Nationally Determined Contributions (NDCs). This includes the governments of countries where Africa Oil conducts business. These policies may directly or indirectly increase the cost of doing business in these countries or potentially restrict our ability to operate. Africa Oil regularly monitors the evolving regulatory landscape, both globally and in our countries of operation, to anticipate the impact of new climate-related measures and ensure we remain compliant. Additionally, the Company is developing a comprehensive energy transition strategy, including measures to minimise operational emissions in line with Paris Agreement objectives, which should help to remain aligned with evolving regulatory requirements and minimise negative impacts.

Reputational Risk

Increased scrutiny, pressure and action by environmental activists, non-governmental organisations and other stakeholders may result in disruption to operations or loss of license to operate. Such disruption may negatively impact cash flows, returns or the value of our portfolio. Similarly, companies within the sector and our supply chain may make emissions performance and climate risk management explicit in partner or contract decisions. The Company has not been directly targeted by environmental activists but could be targeted in the future. To mitigate this risk, Africa Oil proactively engages with the communities and other stakeholders where the Company operates to keep them informed about the impact of our operations on the environment and their livelihoods. The Company also ensures proper security is in place to minimise the impact of any potential disruptions and prevent harm to staff, bystanders and assets.

In addition to environmental activists, numerous banks and large institutional investors have communicated an intention to divest from or limit future exposure to fossil fuels, including oil and gas. Increasing investor and lender concerns regarding climate resilience could limit access to capital, increase the cost of that capital via higher interest rates or result in direct costs associated with new measures to meet investor expectations. Since 2020, Africa Oil has published public climate disclosures aligned with the Taskforce for Climate-Related Financial Disclosures (TCFD) recommendations to proactively address investor and other stakeholder concerns regarding climate risk exposure. In addition, Africa Oil regularly engages with investors and lenders to understand their climate policies and requirements and to inform them about the steps the Company is taking to manage climate risks. This includes development of a comprehensive energy transition strategy to minimise operational emissions.

Technology Risks

Evolution and proliferation of clean energy technologies, including renewables, electric vehicles, hydrogen and other clean fuels, and energy management technologies such as the Internet of Things, may reduce oil and gas's share of the energy market in the medium and long term, making our business model unsustainable. The Company will work with and through our partners to reduce operational costs as much as possible without sacrificing health and safety or longer-term efficiency and environmental goals to ensure they remain resilient in a low demand, low oil price environment. Additionally, we may explore diversifying into alternative, lower carbon business lines as part of a comprehensive energy transition strategy.

In addition to new business lines, the evolution of clean energy technologies present opportunities for integration with our operations to lower our own emissions footprint. Specifically, the Field Development Plan for our Kenyan assets includes use of solar power to support administrative loads, and we have explored broader use of renewables to power operations at the facility.

Physical Risks

Climate change has already resulted in significant shifts in global weather patterns, including an increase in the number and severity of heat waves, cold spells, droughts and storms, including hurricanes and tropical cyclones. Longer term, climate change may also result in rising sea levels due to melting polar ice caps. The physical effects of climate change have the potential to directly impact the Company's assets and operations. In 2022, the Company contracted a global climate risk analytics company to perform a quantified assessment of the physical climate risks facing the Company's assets under three IPCC climate scenarios: SSP1-2.6 (consistent with 1.8°C warming), SSP2-4.5 (consistent with 2.7°C warming) and SSP5-8.5 (consistent with 4.4°C warming). That analysis suggests exposure to future changes in physical climate hazards is relatively minimal compared to the historical baseline across all three scenarios and limited to increasing precipitation and risk of drought in Kenya. We will continue to monitor our assets' exposure to physical climate risks as our portfolio and the global scientific community's understanding of changing climate patterns evolves.

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.

FORWARD-LOOKING STATEMENTS - CONTINUED

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

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

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

FORWARD-LOOKING STATEMENTS - CONTINUED

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

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

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



Independent auditor's report

To the Shareholders of Africa Oil Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Africa Oil Corp. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021 and January 1, 2021, and its financial performance and its cash flows for the years ended December 31, 2022 and 2021 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2022 and 2021 and January 1, 2021;
- the consolidated statements of net (loss)/ income and comprehensive (loss)/ income for the years ended December 31, 2022 and 2021;
- the consolidated statements of equity for the years ended December 31, 2022 and 2021;
- the consolidated statements of cash flows for the years ended December 31, 2022 and 2021; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

PricewaterhouseCoopers LLP
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of intangible exploration assets of the Project Oil Kenya cash generating unit <i>Refer to note 2 – Basis of preparation, note 3 – Significant accounting policies and note 7 – Intangible exploration assets to the consolidated financial statements.</i> As at December 31, 2022, the carrying amount of the Company's intangible exploration assets was \$63.6 million, which includes \$58.5 million related to the Project Oil Kenya cash generating unit (Block 10BB and 13T) (Project Oil Kenya CGU). The carrying amounts of the Company's intangible exploration assets are reviewed at each reporting date to determine whether there is any indication of impairment. Intangible exploration assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. If any such indication exists, then the intangible exploration asset's recoverable amount is estimated. For the purpose of impairment testing, intangible exploration assets are grouped together into a cash generating unit (CGU). The recoverable amount of a CGU is the higher of fair value less costs to dispose and its value in use. Should the carrying amount of the CGU exceed the recoverable amount, an impairment loss is recognized. As at December 31, 2022, management determined that there was an indicator of impairment for the Project Oil Kenya CGU. The Company and its JV partners are actively seeking strategic partners for the project and it is intended	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the recoverable amount of the Project Oil Kenya CGU, which included the following: ○ Evaluated the appropriateness of the method used by management. ○ Tested the underlying data used in determining the recoverable amount. ○ Evaluated the reasonableness of significant assumptions used by management in developing the recoverable amount, including: ▪ operating expenses and development costs by considering the past performance of the Project Oil Kenya CGU and whether these assumptions were consistent with evidence obtained in other areas of the audit; and ▪ future commodity prices by comparing those forecasts with third party industry forecasts.



Key audit matter	How our audit addressed the key audit matter
that a strategic partner will be secured ahead of a financial investment decision (FID). As there have been continuing delays and uncertainties to the farm out process, management considered this an indicator for impairment. As a result of the impairment indicator, management performed an impairment test. Management used fair value less costs of disposal using a discounted cash flow method (level 3) to determine the recoverable amount of the Project Oil Kenya CGU. Significant assumptions developed by management used to determine the recoverable amount of the Project Oil Kenya CGU included estimates for the quantity of contingent resources, future commodity prices, production forecasts, operating expenses, development costs, the likelihood of a successful farm out process, the timing of FID and the discount rate. The estimates for the quantity of contingent resources and production forecasts are prepared by the Company's independent petroleum engineers (management's experts). The results of the impairment test indicated that the carrying value of the Project Oil Kenya CGU exceeded its recoverable amount and the Company recognized an impairment loss of \$170.6 million. We considered this a key audit matter due to (i) the significant judgment by management, including the use of management's experts, when determining the recoverable amount of the Project Oil Kenya CGU (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures relating to management's significant assumptions and (iii) the audit effort that involved the use of professionals with specialized skill and knowledge in the field of valuation.	• The work of management's experts was used in performing the procedures to evaluate the reasonableness of the estimates for the quantity of contingent resources and production forecasts. As a basis for using this work, the competence, capabilities and objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings. • Professionals with specialized skill and knowledge in the field of valuation assisted with developing an independent point estimate for the discount rate, which considered the likelihood of a successful farm out process and the timing of FID; and compared the independent point estimate to management's estimate to evaluate the reasonableness of management's discount rate.



Key audit matter	How our audit addressed the key audit matter
Impairment assessment of equity accounted investment in Prime <i>Refer to note 2 – Basis of preparation, note 3 – Significant accounting policies and note 5 – Equity investment in joint venture to the consolidated financial statements.</i> The carrying amount of the Company's equity accounted investment in Prime Oil and Gas Coöperatief U.A. (Prime) was \$513.7 million as at December 31, 2022. Management assesses the equity accounted investment in Prime for impairment whenever changes in circumstances or events indicate that the carrying value may not be recoverable. If such impairment indicators exist, the carrying amount of the equity accounted investment in Prime is compared to its recoverable amount. The recoverable amount is the higher of the equity accounted investment in Prime's fair value less costs to dispose and its value in use. The equity accounted investment in Prime is written down to its recoverable amount when its carrying amount exceeds the recoverable amount. As at December 31, 2022, management determined that there was an indicator of impairment in relation to the Company's equity accounted investment in Prime arising from an impairment recognized by Prime. As a result, an impairment test was performed. Management determined the recoverable amount of the equity accounted investment in Prime by calculating the value in use derived from the discounted cash flow forecast of the dividend stream to be received from Prime. Significant assumptions developed by management to support the forecasted dividend stream used to determine the recoverable amount of the equity accounted investment in Prime included; estimates for the quantity of proved and probable petroleum reserves, future commodity prices, operating and capital costs as well as	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the recoverable amount of the equity accounted investment in Prime, which included the following: ○ Evaluated the appropriateness of the method used by management. ○ Tested the underlying data used in determining the recoverable amount. ○ Evaluated the reasonableness of significant assumptions used in developing the underlying estimates, including: ■ operating and capital costs by considering the past performance of Prime and whether these assumptions were consistent with evidence obtained in other areas of the audit. ■ future commodity prices by comparing those forecasts with third party industry forecasts; and ■ the discount rates, through the assistance of professionals with specialized skill and knowledge in the field of valuation.



Key audit matter	How our audit addressed the key audit matter
discount rates. The quantity of proved and probable petroleum reserves are prepared by Prime's independent petroleum engineers (management's experts). The results of the impairment test indicated that the recoverable amount of the equity accounted investment in Prime was in excess of the carrying value. We considered this is a key audit matter due to (i) the significant judgment made by management, including the use of management's experts, when determining the recoverable amount of the equity accounted investment in Prime (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures relating to the significant assumptions and (iii) the audit effort that involved the use of professionals with specialized skill and knowledge in the field of valuation.	The work of management's experts was used in performing the procedures to evaluate the reasonableness of the estimates for the quantity of proved and probable petroleum reserves. As a basis for using this work, the competence, capabilities and objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings.

Other information

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is



necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Khurram Asghar.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
February 27, 2023

CONSOLIDATED BALANCE SHEETS

(Expressed in millions of United States dollars)

As at	Note	December 31, 2022	December 31, 2021	January 1, 2021
See note 2c				
ASSETS				
Current assets				
Cash and cash equivalents	4	199.7	58.9	40.5
Accounts receivable and prepaid expenses		1.4	0.6	1.4
		201.1	59.5	41.9
Long-term assets				
Equity investment in joint venture	5	513.7	617.1	561.3
Equity investments in associates	6	137.3	120.7	116.2
Intangible exploration assets	7	63.6	194.3	190.6
Property and equipment	-	-	-	0.5
Loan to associated company	17	2.0	-	-
		716.6	932.1	868.6
Total assets		917.7	991.6	910.5
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and liabilities	8	37.2	3.7	11.2
Share-based compensation liability	15	7.3	4.0	1.6
		44.5	7.7	12.8
Long-term liabilities				
Share-based compensation liability	15	5.3	3.9	2.4
Provision for contingent consideration	5	32.0	32.0	-
Provision for site restoration	9	5.3	-	-
Long-term debt	10	-	-	141.0
		42.6	35.9	143.4
Total liabilities		87.1	43.6	156.2
Equity attributable to common shareholders				
Share capital	11(B)	1,267.7	1,309.1	1,306.5
Contributed surplus		59.2	51.1	50.8
Deficit		(496.3)	(412.2)	(610.7)
Accumulated other comprehensive income		-	-	7.7
Total equity attributable to common shareholders		830.6	948.0	754.3
Total liabilities and equity attributable to common shareholders		917.7	991.6	910.5

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

Approved on behalf of the Board:

"ANDREW BARTLETT"

ANDREW BARTLETT, DIRECTOR

"KEITH HILL"

KEITH HILL, DIRECTOR

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

(Expressed in millions of United States dollars)

For the years ended	Note	December 31, 2022	December 31, 2021
Operating income			
Share of profit from investment in joint venture	5	146.6	224.4
Share of (loss)/ income from investments in associates	6	(8.2)	2.5
Total operating income		138.4	226.9
Operating expenses			
Salaries and benefits		(6.2)	(6.3)
Share-based compensation	15	(9.5)	(6.3)
Professional fees and other general and administrative expenses		(11.3)	(5.4)
Impairment of intangible exploration assets	7	(170.6)	-
Total operating expense		(197.6)	(18.0)
Net operating (loss)/ income		(59.2)	208.9
Finance income	13	2.4	0.1
Finance expense	13	(3.5)	(18.3)
Net (loss)/ income attributable to common shareholders		(60.3)	190.7
Other comprehensive (loss)/ income			
Share of joint venture Other comprehensive loss	5	-	(0.6)
Total comprehensive (loss)/ income		(60.3)	190.1
Net (loss)/ income attributable to common shareholders per share			
Basic	14	(0.13)	0.40
Diluted	14	(0.13)	0.40
Weighted average number of shares outstanding for the purpose of calculating earnings per share			
Basic	14	474,366,637	473,332,153
Diluted	14	474,366,637	477,361,286

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

CONSOLIDATED STATEMENTS OF EQUITY

(Expressed in millions of United States dollars)

For the years ended	Note	December 31, 2022	December 31, 2021
Share capital:	11(B)		
Balance, beginning of the year		1,309.1	1,306.5
Exercise of Share Options	15	3.4	1.2
Settlement of Restricted Share Units	15	1.2	0.9
Settlement of Performance Share Units	15	1.9	0.5
Weighted average value of shares cancelled	11	(47.9)	-
Balance, end of the year		1,267.7	1,309.1
Contributed surplus:			
Balance, beginning of the year		51.1	50.8
Share-based compensation	15	0.1	0.4
Transfer to Deficit		-	(0.1)
Excess of weighted value of shares cancelled		8.0	-
Balance, end of the year		59.2	51.1
Treasury account:			
Balance, beginning of the year		-	-
Shares purchased	11	39.9	-
Shares cancelled	11	(39.9)	-
Balance, end of the year		-	-
Deficit:			
Balance, beginning of the year		(412.2)	(610.7)
Dividends paid		(23.8)	-
Net (loss)/ income attributable to common shareholders		(60.3)	190.7
Transfer from Contributed surplus		-	0.1
Amounts transferred from Accumulated other comprehensive income		-	7.7
Balance, end of the year		(496.3)	(412.2)
Accumulated other comprehensive income:			
Balance, beginning of the year		-	7.7
Other comprehensive loss	5	-	(0.6)
Amounts transferred to Deficit		-	(7.7)
Amounts transferred to Statement of Net (Loss)/ Income and Comprehensive (Loss)/ Income	5	-	0.6
Balance, end of the year		-	-
Total equity attributable to common shareholders			
Balance, end of the year		830.6	948.0

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in millions of United States dollars)

For the years ended	Note	December 31, 2022	December 31, 2021
Cash flows generated by/ (used in):			
Operations:			
Net (loss)/ income for the year		(60.3)	190.7
Adjustments for:			
Share-based compensation	15	9.5	6.3
Share of profit from investment in joint venture	5	(146.6)	(224.4)
Share of loss/ (income) from investments in associates	6	8.2	(2.5)
Impairment of intangible exploration assets	7	170.6	-
Finance income	13	(2.4)	(0.1)
Finance expense	13	3.5	18.3
Other		-	0.7
Changes in non-cash operating working capital	22	1.2	0.2
Net cash used in operating activities		(16.3)	(10.8)
Investing:			
Intangible exploration expenditures	7	(3.3)	(4.6)
Long-term loan provided to associated company	17	(2.0)	-
Equity investment in associates	6	(24.8)	(2.0)
Dividends received from joint venture	5	250.0	200.0
Changes in non-cash investing working capital	22	0.3	(5.7)
Net cash generated by investing activities		220.2	187.7
Financing:			
Repayment of Term Loan	10	-	(141.0)
Drawdown of Corporate Facility	10	-	98.0
Repayment of Corporate Facility	10	-	(98.0)
Payment of interest, arrangement fees and other loan fees	13	(3.5)	(18.3)
Receipt of interest income	13	2.4	0.1
Settlement of Performance and Restricted Share Units	15	(1.7)	(0.4)
Dividends paid to shareholders	11	(23.8)	-
Repurchase of share capital	11	(39.9)	-
Exercise of Share Options	15	3.3	1.1
Net cash used in financing activities		(63.2)	(158.5)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		0.1	-
Increase in cash and cash equivalents		140.8	18.4
Cash and cash equivalents, beginning of the year	4	58.9	40.5
Cash and cash equivalents, end of the year	4	199.7	58.9

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2022, and December 31, 2021
(Expressed in millions of United States dollars unless otherwise indicated)

1. Incorporation and nature of business:

Africa Oil Corp. (collectively with its subsidiaries, "AOC" or the "Company") was incorporated on March 29, 1993, under the laws of British Columbia and is an international oil and gas exploration and production company based in Canada with oil and gas interests in Africa. The Company's registered address is Suite 2000 - 885 West Georgia St. Vancouver, BC, Canada V6C 3E8.

2. Basis of preparation:

A. Statement of compliance:

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as at February 27, 2023, the date the Board of Directors approved the statements.

B. Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

C. Functional and presentation currency:

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

The consolidated financial statements are expressed in millions of US dollars unless otherwise indicated. The consolidated financial statements were previously expressed in thousands of US dollars and as a result of the change, the Company has also presented the opening balance sheet for the comparative period in millions of US dollars.

D. Use of estimates and judgements:

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

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

i. Exploration and evaluation costs:

Exploration and evaluation costs are initially capitalized as intangible exploration assets with the intent to establish commercially viable reserves. The Company is required to make significant estimates and judgements about the future events and circumstances regarding whether the carrying amount of intangible exploration assets exceeds its recoverable amount (see note 7).

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

energy transition could impact the future prices of commodities and discount rates used to appraise oil and gas projects. Pricing assumptions used in the determination of recoverable amounts incorporate market expectations and the evolving worldwide demand for energy.

ii. Share based compensation:

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

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

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

iii. Consolidation of entities:

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

iv. Valuation of investments:

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

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

v. Impairment of joint ventures and associates:

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

An area in which the Company has applied judgement in the prior year relates to the investment in Prime. On acquisition, judgements and estimates were used in determining fair values on acquisition for the purposes of the notional purchase price allocation. Subsequently, in assessing whether there are any indicators of impairment the Company has considered any effects of Prime's forward sales, the loan facility, and any operational and contractual implications on the future dividend stream when assessing for impairment indicators.

vi. Deferred tax asset:

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

vii. Contingencies:

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

viii. Hydrocarbon reserve and resource estimates:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

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

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

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

ix. Provision for site restoration:

Amounts used in recording a provision for site restoration are based on current legal and constructure requirements and current technology and price levels for the removal of facilities and plugging and abandoning of wells. Due to changes in relation to these items, the future cash outflows in relation to the site decommissioning and restoration can be difficult. To reflect the effects due to changes in legislation, requirements, technology and price levels, the carrying amounts of site restoration provisions are reviewed on a regular basis.

On fields where the Group is required to contribute to site restoration costs, a provision is recorded to recognize the future commitment. An asset is created, as part of oil and gas interests, to represent the discounted value of the anticipated site restoration liability and depleted over the life of the field on a unit of production basis. The corresponding accounting entry to the creation of the asset recognizes the discounted value of the future liability. The discount applied to the anticipated site restoration liability is subsequently released over the life of the field and is charged to finance expense. Changes in site restoration costs and reserves are treated prospectively and consistent with the treatment applied upon initial recognition (see note 9).

x. Uncertain tax positions:

Contingencies are subject to measurement uncertainty as the related financial impact will only be confirmed by the outcome of a future event. The assessment of contingencies requires the application of judgements and estimates including the determination of whether a present obligation exists and the reliable estimation of the timing and amount of cash flows required to settle the contingency. The Company is subject to income taxes in numerous legal jurisdictions. Accounting for income taxes requires the Company to interpret frequently changing laws and regulations, including changing income tax rates, and make certain judgements with respect to the application of tax law, estimating the timing of temporary difference reversals, and estimating the realizability of tax assets. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes a liability for a tax filing position based on its assessment of the probability that additional taxes may ultimately be due.

3. Significant accounting policies:

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

A. Basis of consolidation:

i. Subsidiaries:

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

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

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

ii. Jointly controlled operations and jointly controlled assets:

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

iii. Transactions eliminated on consolidation:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

B. Equity method:

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

The Company assesses investments in joint ventures and associates for impairment whenever changes in circumstances or events indicate that the carrying value may not be recoverable. If such impairment indicators exist, the carrying amount of the investment is compared to its recoverable amount. The recoverable amount is the higher of the investment's fair value less costs to sell and its value in use. The investment is written down to its recoverable amount when its carrying amount exceeds the recoverable amount.

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

i. Sales of crude oil and natural gas:

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

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

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

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

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

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

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

ii. Tax oil revenue:

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

iii. Depreciation/amortization:

Oil and gas properties are depreciated/amortized from the commencement of production, on a UoP basis, which is the ratio of oil and gas production in the period to the estimated quantities of the 2P reserves at the end of the period plus the production in the period, on a field-by-field basis. Facilities included in oil and gas production assets are depreciated on a straight-line basis over the economic useful life of the field concerned. Costs used in the UoP calculation and straight-line depreciation comprise the net carrying amount of capitalized costs plus the estimated future field development costs. Changes in the estimates of reserves or future field development costs are dealt with prospectively. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank. Rights and concessions are depleted on the UoP basis over the total proved and probable reserves of the relevant area.

iv. Recoverability of oil and gas properties:

Prime assesses each asset or cash generating unit (CGU) (excluding goodwill, which is assessed annually regardless of indicators) each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, with reference to total proved and risk-adjusted probable reserves ('2P'), a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The assessments require the use of estimates and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves (see Hydrocarbon reserve and resource estimates above) and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for oil and gas properties is generally determined as the present value of estimated future cash flows arising from the continued use of the assets, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU.

C. Long-term debt:

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

D. Foreign currency:

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

E. Intangible exploration assets:

i. Pre-exploration expenditures:

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

ii. Exploration expenditures:

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

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

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

iii. Development and production costs:

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

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

F. Depreciation:

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

G. Impairment:

i. Financial assets carried at amortized cost:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

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

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

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

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

ii. Non-financial assets:

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

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

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

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

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

H. Share purchase options:

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

I. Performance share units ("PSUs"):

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

J. Restricted share units ("RSUs"):

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

K. Finance income and expenses:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**L. Income tax:**

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

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

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

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

M. Earnings per share:

Basic earnings per share is calculated by dividing net income/(loss) attributable to the common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is determined by adjusting the net income/(loss) attributable to the common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options and LTIP's granted to employees. The weighted average number of diluted shares is calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price. The PSUs are considered to be contingently issuable and are included in the calculation of diluted EPS as if the conditions of the contingency are deemed to have been met based on the information available at the end of the reporting period. PSUs are only included in the diluted EPS calculation if the effect is dilutive. RSUs are included in full in the diluted EPS calculation only if the effect is dilutive.

N. Financial instruments:

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

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

i. Financial assets and liabilities at amortized cost:

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

O. Provisions:

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

i. Contingent Consideration:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**ii. Provision for site restoration:**

On fields where the Group is required to contribute to site restoration costs, a provision is recorded to recognize the future commitment. An asset is created, as part of oil and gas interests, to represent the discounted value of the anticipated site restoration liability and depleted over the life of the field on a unit of production basis. The corresponding accounting entry to the creation of the asset recognizes the discounted value of the future liability. The discount applied to the anticipated site restoration liability is subsequently released over the life of the field and is charged to finance expense. Changes in site restoration costs and reserves are treated prospectively and consistent with the treatment applied upon initial recognition.

4. Cash and cash equivalents:

As at	December 31, 2022	December 31, 2021
Cash and cash equivalents	199.3	58.5
Restricted cash	0.4	0.4
	199.7	58.9

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

Cash equivalents include short-term deposits made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at varying rates.

5. Equity investment in joint venture:**Prime Oil and Gas Coöperatief U.A. ("Prime"):**

On January 14, 2020, the Company completed the acquisition of a 50% ownership interest in Prime. BTG Pactual Holding S.à.r.l., a private limited liability company governed and existing under the laws of the Grand Duchy of Luxembourg ("BTG") continues to own the remaining 50% of Prime. The Company has accounted for the acquisition as a joint venture as there is joint control.

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

In the year ended December 31, 2022, Prime made five dividend payments totaling \$500.0 million gross, with a net payment to the Company of \$250.0 million related to its 50% interest. In the year ended December 31, 2021, four dividend payments were made totaling \$400.0 million gross, with a net payment to the Company of \$200.0 million related to its 50% interest. The timing and payment of the dividends is discretionary. There are no restrictions on the ability of Prime to pay dividends to its members.

The following table shows the Company's carrying value of the investment in Prime as at December 31, 2022, and December 31, 2021.

	December 31, 2022	December 31, 2021
Balance, beginning of the year	617.1	561.3
Share of joint venture profit	146.6	224.4
Revaluation of contingent consideration	-	32.0
Dividends received from Prime	(250.0)	(200.0)
Share of joint venture other comprehensive loss	-	(0.6)
Balance, end of the year	513.7	617.1

In the year ended December 31, 2022, the Company recognized income of \$146.6 million relating to its investment in Prime (year ended December 31, 2021 - \$224.4 million).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Under the Prime Sale and Purchase Agreement completed on January 14, 2020, a deferred payment of \$118.0 million, subject to adjustment, may be due to the seller contingent upon the timing and final OML 127 tract participation in the Agbami field. The signing of the Securitization Agreement by Prime has led to the Company reassessing its view of the likelihood of making a contingent consideration payment to the seller. The signing of the Securitization Agreement by Prime does not constitute a redetermination of the tract participation and therefore does not trigger the payment of a contingent consideration under the Sale and Purchase Agreement but, at the Company's discretion, could trigger discussions with the seller. The outcome of this process is uncertain. In 2021, the Company recorded \$32.0 million as contingent consideration and increased the Company's investment in Prime. As at December 31, 2022, the Company has determined that there was an indicator of impairment in relation to its investment in Prime arising from an impairment recognized by Prime. The impairment recognized by Prime has arisen mainly from a reduction in the recoverable reserves for the Egina field and an increase in the discount rate.

The Company determined the recoverable amount of its investment in Prime by calculating the value in use derived from the discounted cash flow forecast of the dividend stream to be received from Prime. The results of the impairment test indicated that the recoverable amount was in excess of the carrying value.

The following tables summarize Prime's financial information as at and for the years ended December 31, 2022, and December 31, 2021.

Prime's Balance Sheet

As at	December 31, 2022	December 31, 2021
Cash and cash equivalents included in current assets ⁽¹⁾	331.7	517.9
Other current assets	301.7	369.7
Non-current assets ⁽²⁾	3,188.9	3,433.7
Other current liabilities	(320.1)	(291.4)
Loans and borrowings included in current liabilities ⁽³⁾	(421.9)	(523.8)
Other non-current liabilities	(637.2)	(540.2)
Loans and borrowings included in non-current liabilities ⁽³⁾	(360.4)	(493.0)
Deferred income tax liabilities included in non-current liabilities	(1,055.3)	(1,238.7)
Net assets of Prime	1,027.4	1,234.2
Percentage ownership	50%	50%
Proportionate share of Prime's net assets	513.7	617.1

(1) See Prime's Statement of Cash Flows for additional information on movements in cash and cash equivalents.

(2) As at December 31, 2022, the carrying value of non-current assets included a fair value adjustment of \$643.1 million (at December 31, 2021 - \$623.3 million). These amounts were allocated to goodwill as part of the notional purchase price allocation.

(3) In the year ended December 31, 2022, Prime has repaid \$384.5 million of RBL and PXF debt and drew an additional amount of \$150.0 million of the PXF Facility, reducing its gross debt to \$782.3 million (year ended December 31, 2021, Prime repaid \$436.0 million of RBL debt and had drawn \$150.0 million of the PXF Facility, reducing its gross debt to \$1,016.8 million).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Prime's Statement of Net Income and Other Comprehensive Income

For the years ended	December 31, 2022	December 31, 2021
Revenue ⁽¹⁾	1,446.3	1,220.3
Depreciation, depletion and amortization	(262.7)	(303.4)
Production costs	(154.1)	(165.1)
Movement in underlift/overlift ⁽²⁾	(46.8)	32.1
Royalties	(92.7)	(105.7)
Cost of sales	(556.3)	(542.1)
Gross profit	890.0	678.2
Other operating income ⁽³⁾	112.8	355.4
Exploration expenses	(2.8)	(3.9)
Impairment ⁽⁴⁾	(82.3)	-
Other operating costs ⁽⁵⁾	(64.6)	(28.1)
Finance income	6.5	0.4
Finance costs ⁽⁶⁾	(74.6)	(100.4)
Profit before tax	785.0	901.6
Tax ⁽⁷⁾	(485.6)	(460.0)
Total profit for the year	299.4	441.6
Other comprehensive loss ⁽⁸⁾	-	(1.1)
Total comprehensive income	299.4	440.5
Proportionate share of Prime's profit for the year	149.7	220.8
Adjustments to share of Prime's profit for the year ⁽⁹⁾	(3.1)	3.6
Total share of Prime's profit for the year	146.6	224.4
Proportionate share of Prime's other comprehensive loss	-	(0.6)
Proportionate share of Prime's net income	146.6	223.8

(1) Included in revenue are royalties paid in kind of \$40.7 million in the year ended December 31, 2022 (year ended December 31, 2021 - \$30.8 million).

(2) As at December 31, 2022, Prime was in a net underlift position, reduced from a larger net underlift position at December 31, 2021. This resulted in a charge of \$46.8 million in the Statement of Net Income and Other Comprehensive Income for the year ended in December 31, 2022.

(3) For some of its qualifying capital expenditure ("QCE"), Prime is entitled to claim an investment tax credit ("ITC") at the rate of 50% of the QCE incurred, either wholly or exclusively or necessarily for the purposes of its petroleum operations. This is a Nigerian government tax credit which can be offset with Petroleum Profit Tax ("PPT") and serves as an incentive for investments in the exploration of oil and gas in the deep offshore waters of Nigeria. Prime recognized investment tax credits of \$112.3 million in the year ended December 31, 2022 (year ended December 31, 2021 - net credits of \$349.3 million). During the year ended December 31, 2022, Prime exhausted its investment tax credit pool and additional credits have since been generated on capital expenditure incurred on qualifying assets.

(4) Prime has recorded an impairment of \$82.3 million for the year ended December 31, 2022 (year ended December 31, 2021 - nil). The impairment has arisen mainly from a reduction in the expected ultimate recovery of the Egina field following the incorporation of the results of the 4D seismic acquired in late 2021 as well as an increase in the discount rate.

(5) Other operating costs include Prime's administrative costs, sales costs, withholding tax on dividends paid and the NDDC Levy, which concerns the Niger Delta Development Commission imposed by a regulatory body in Nigeria to fund the sustainable development of the Niger Delta region.

(6) In the year ended December 31, 2022, finance costs of \$74.6 million have been incurred (year ended December 31, 2021 - \$100.4 million). Finance costs have decreased in the year ended December 31, 2022, and are primarily made up of interest expenses incurred on the RBL and PXF facilities and accretion expenses incurred on the decommissioning liability.

(7) The tax expense has increased as taxable profits, driven by an increase in the gross profit, have increased in the year ended December 31, 2022.

(8) The Company recognized other comprehensive losses in 2021 relating to its share of movements of the fair value of hedge instruments recognized in Prime. These instruments have been settled in full as at December 31, 2021, and therefore no movements have been recognized in the year ended December 31, 2022.

(9) The adjustment in the year ended December 31, 2022, represents an adjustment to prior years. The adjustment in the year ended December 31, 2021, related to the fair value of hedges included in the investment value of Prime acquisition which were fully settled during the year ended December 31, 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Supplementary information: Prime's Statement of Cash Flows

For the years ended	December 31, 2022	December 31, 2021
Profit before tax	785.0	901.6
<i>Adjustments for:</i>		
Depreciation, depletion and amortization	262.7	303.4
Impairment	82.3	-
Finance costs, net	68.1	100.0
Taxes paid	(643.0)	(494.5)
Change in provisions	(2.9)	307.0
Interest expense paid	(51.3)	(44.9)
Cash generated in operating activities before working capital	500.9	1,072.6
<i>Changes in working capital</i>		
Changes in trade receivables	37.3	(155.3)
Changes in over/underlift balances	46.8	(32.1)
Changes in other working capital balances	4.5	168.2
Total changes in working capital	88.6	(19.2)
Net cash generated from operating activities	589.5	1,053.4
Expenditures on oil and gas properties	(47.8)	(50.5)
Interest income received	6.5	0.4
Net cash used in investing activities	(41.3)	(50.1)
Payment of dividends to shareholders	(500.0)	(400.0)
Repayment of third-party borrowings	(384.5)	(436.0)
Drawdown of PXF Facility	150.0	150.0
Payment on settlement of derivative financial instruments	-	(30.6)
Net cash used in financing activities	(734.5)	(716.6)
Foreign exchange variation on cash and cash equivalents	0.1	(0.2)
Total cash flow	(186.2)	286.5
Cash and cash equivalents, beginning of the year	517.9	231.4
Cash and cash equivalents, end of the year	331.7	517.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

6. Equity investments in associates:

The Company currently holds the following equity investments in associates:

	Africa Energy Corp.	Eco (Atlantic) Oil and Gas Ltd	Impact Oil and Gas Ltd	Total
Ownership at December 31, 2022	19.7%	15.0%	30.9%	
Shares held at December 31, 2022	276,982,414	54,941,744	287,565,860	
At January 1, 2021	45.8	12.9	57.5	116.2
Share of income/ (loss) from equity investments	4.4	(0.5)	(1.4)	2.5
Additional investment through private placement	-	2.0	-	2.0
At December 31, 2021	50.2	14.4	56.1	120.7
Share of (loss)/ income from equity investments	(3.7)	(6.2)	0.6	(9.3)
Gain on dilution of equity investment	0.1	0.7	0.3	1.1
Additional investment through private placement	-	5.8	19.0	24.8
At December 31, 2022	46.6	14.7	76.0	137.3

In the year ended December 31, 2022, the Company recognized a total loss of \$8.2 million (year ended December 31, 2021 - income of \$2.5 million) mainly driven by the results of the Gazania-1 exploration well on Block 2B offshore South Africa, with both Africa Energy Corp and Eco (Atlantic) Oil and Gas Ltd holding a participating interest in this license.

As at December 31, 2022, the Company has determined that there are no indicators of impairment for any of its equity investments in associates.

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

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

In the year ended December 31, 2022, the Company's ownership interest in Africa Energy decreased from 19.8% to 19.7% due to the issue of shares in which the Company did not participate.

As at December 31, 2022, the market value of the Company's investment in Africa Energy is \$37.8 million based on the share price of CAD 0.19 (as at December 31, 2021 - \$54.3 million).

The following table summarizes Africa Energy's financial information for the years ended December 31, 2022, (based on preliminary figures) and December 31, 2021. The Company is not aware of any material changes to the financial information.

Balance Sheet

As at	December 31, 2022	December 31, 2021
Cash and cash equivalents included in current assets	7.1	11.8
Other current assets	0.2	0.4
Non-current assets ⁽¹⁾	229.3	242.9
Current liabilities	(0.3)	(1.6)
Net assets of Africa Energy	236.3	253.5
Percentage ownership ⁽²⁾	19.7%	19.8%
Proportionate share of Africa Energy's net assets	46.6	50.2

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

For the years ended	December 31, 2022	December 31, 2021
Net (loss)/ profit and comprehensive (loss)/ profit from continuing operations	(18.8)	22.2
Proportionate share of Africa Energy's net (loss)/ income	(3.7)	4.4

(1) As at December 31, 2022, the carrying value of non-current assets included a fair value adjustment of \$27.4 million (as at December 31, 2021 - \$14.6 million).

(2) In the year ended December 31, 2022, the Company's ownership in Africa Energy changed from 19.8% to 19.7% (year ended December 31, 2021 - 19.9% to 19.8%).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**B. Eco (Atlantic) Oil and Gas Ltd. ("Eco"):**

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

On April 6, 2022, Eco completed an equity fundraise. A total of 64,885,496 new Common Shares were placed with, or subscribed for, by new and existing institutional investors at a price of £0.30 per Placing Share. The equity fundraise raised gross proceeds of approximately \$25.5 million for Eco before expenses. The Company subscribed for 10,178,116 common shares for a consideration of \$4.0 million and following this the Company held 17.3% of the enlarged share capital in Eco.

On June 27, 2022, Eco signed a farmout agreement in which its wholly owned subsidiary, Azinam Limited, acquired an additional 6.25% participating interest in Block 3B/4B. The aggregate dollar consideration for the transaction was \$10.0 million and was settled substantially in Eco shares. Eco received TSX Venture Exchange approval for the transaction on July 6, 2022. Following the approval of issuance, the Company held 16.1% of the enlarged share capital in Eco.

On June 27, 2022, Eco completed an equity fundraise. A total of 33,406,531 new Common Shares were placed with, or subscribed for, by new and existing institutional investors at a price of £0.30 per Placing Share. The equity fundraise raised gross proceeds of approximately \$12.3 million for Eco before expenses. The Company subscribed for 4,864,865 common shares for a consideration of \$1.8 million and following TSX Venture Exchange approval, the Company held 15.9% of the enlarged share capital in Eco.

Since June 27, 2022, Eco cancelled a number of shares and issued shares, in which the Company did not participate, and following this the Company held 15.0% of the share capital in Eco.

As at December 31, 2022, the market value of the Company's investment in Eco is \$12.2 million based on a share price of CAD 0.3 (as at December 31, 2021 - \$11.0 million).

The following tables summarize Eco's financial information for the years ended December 31, 2022, (based on preliminary figures) and December 31, 2021. The Company is not aware of any material changes to the financial information.

Balance Sheet

As at	December 31, 2022	December 31, 2021
Cash and cash equivalents included in current assets	24.6	6.2
Other current assets	4.4	0.5
Non-current assets ⁽¹⁾	75.0	68.8
Current liabilities	(5.7)	(0.6)
Non-current liabilities	-	(2.6)
Net assets of Eco	98.3	72.3
Percentage ownership ⁽²⁾	15.0%	19.9%
Proportionate share of Eco's net assets	14.7	14.4

Statement of Net loss and comprehensive loss from continuing operations

For the years ended	December 31, 2022	December 31, 2021
Net loss and comprehensive loss from continuing operations	(41.2)	(2.8)
Proportionate share of Eco's net loss	(6.2)	(0.5)

(1) As at December 31, 2022, the carrying value of non-current assets included a fair value adjustment of \$36.6 million (as at December 31, 2021 - \$55.9 million).

(2) In the year ended December 31, 2022, the Company's ownership in Eco changed from 19.9% to 15.0% (year ended December 31, 2021 - 18.4% to 19.9%).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**C. Impact Oil and Gas Ltd ("Impact"):**

Impact is an oil and gas exploration company with interests in Namibia and South Africa.

On July 18, 2022, the Company subscribed for 31,936,373 shares in Impact for \$19.0 million and following the transaction the Company held 30.9% of the enlarged share capital in Impact.

The following tables summarize Impact's financial information for the years ended December 31, 2022, (based on preliminary figures) and December 31, 2021. The Company is not aware of any material changes to the financial information.

Balance Sheet

As at	December 31, 2022	December 31, 2021
Cash and cash equivalents included in current assets	49.2	40.0
Other current assets	0.8	0.6
Non-current assets ⁽¹⁾	199.1	143.0
Current liabilities	(2.7)	(2.1)
Non-current liabilities	(0.4)	-
Net assets of Impact	246.0	181.5
Percentage ownership ⁽²⁾	30.9%	30.9%
Proportionate share of Impact's net assets	76.0	56.1

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

For the years ended	December 31, 2022	December 31, 2021
Net profit and comprehensive loss from continuing operations	(5.6)	(4.4)
Proportionate share of Impact's loss	(1.7)	-
Adjustments to share of loss relating to year ended December 31, 2021	2.3	-
Proportionate share of Impact's income/ (loss) as reported ⁽³⁾	0.6	(1.4)

(1) As at December 31, 2022, the carrying value of non-current assets included a fair value adjustment of \$54.6 million (as at December 31, 2021 - \$35.7 million).

(2) In the year ended December 31, 2022, the Company's ownership in Impact remained 30.9% through the year (year ended December 31, 2021 - remained 30.9% through the year).

(3) The Company has an income for its proportionate share of the result from Impact despite Impact making a loss in the year ended December 31, 2022, as a result of adjustments relating to 2021 being recorded in 2022.

7. Intangible exploration assets:

	Note	December 31, 2022	December 31, 2021
Net carrying amount, beginning of the year		194.3	190.6
Intangible exploration expenditures	A	39.9	3.7
Impairment of intangible exploration assets	B	(170.6)	-
Net carrying amount, end of the year		63.6	194.3

A. Intangible exploration expenditures:

As at December 31, 2022, \$63.6 million of expenditures have been capitalized as intangible exploration assets (as at December 31, 2021 - \$194.3 million). These expenditures relate to the Company's share of exploration and appraisal stage projects which are pending the determination of 2P petroleum reserves.

As at December 31, 2022, the carrying amount of the Company's intangible exploration assets for its 25% interest in the Project Oil Kenya CGU (Block 10BB and 13T) was \$58.5 million (as at December 31, 2021 - \$189.8 million) following an impairment of the assets.

The additions to intangible exploration assets during the year include exploration expenditures incurred directly relating to the projects, the recognition of a liability for the ongoing court case in Kenya following the decision by the High Court of Kenya (see note 8), a provision of \$10.0 million related to unresolved Kenya joint venture matters (see note 8) and also include the recognition of a provision for costs to decommission and restore the exploration and development sites in Kenya (see note 9).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

As at December 31, 2022, the carrying amount of Block 10BA in Kenya is nil (as at December 31, 2021 - nil).

As at December 31, 2022, 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 \$5.1 million (as at December 31, 2021 - \$4.5 million). In the year ended December 31, 2022, expenditures of \$0.6 million were incurred reprocessing the 2D and 3D seismic (year ended December 31, 2021 - \$0.4 million).

At December 31, 2022, no intangible exploration assets have been transferred to oil and gas interests as commercial reserves have not been established and technical feasibility for extraction has not been demonstrated.

In the year ended December 31, 2022, the Company capitalized \$2.1 million of general and administrative expenses related to intangible exploration assets (year ended December 31, 2021 - \$1.3 million).

B. Impairment of intangible exploration assets:

At December 31, 2022, the Company determined that there was an indicator of impairment for the Project Oil Kenya CGU. The Company and its JV partners are actively seeking strategic partners for the project and it is intended that a strategic partner will be secured ahead of FID. As there have been continuing delays and uncertainties to the farm out process, the Company considered this an indicator for impairment.

The recoverable amount of a CGU is the higher of fair value less costs to dispose and its value in use. The Company calculated the fair value less costs to dispose using a discounted cash flow method (level 3) to determine the recoverable amount of the project.

Significant assumptions developed by management used to determine the recoverable amount of the Project Oil Kenya CGU included estimates for the quantity of contingent resources, future commodity prices, production forecasts, operating expenses, development costs, the likelihood of a successful farm out process, the timing of FID and the discount rate. The estimates for the quantity of contingent resources and production forecasts are prepared by the Company's independent petroleum engineers (management's experts).

The Canadian IQRE consensus oil price forecast was used less a quality discount of \$3/bbl. The oil price is inherently uncertain as the price is often influenced by global events that are unlikely to be foreseen ahead of the event. For purposes of determining the fair value, the estimate of discounted cash flows included probability-weighted scenarios and a discount rate of 18% was used, to reflect the time value of money based on the risks associated with the Project Oil Kenya CGU that have not otherwise been incorporated in the cash flow estimates.

The results of the impairment test indicated that the carrying value of the Project Oil Kenya CGU exceeded its recoverable amount and the Company recognized an impairment loss of \$170.6 million.

At December 31, 2022, a 1% change in the discount rate would result in a change of recoverable amount by \$6.0 million. A 5% change in the oil prices used would result in a change of recoverable amount by \$5.0 million.

Should the uncertainties around the project be resolved there may be a reversal of previously recognized impairment. However, if the uncertainties are not resolved there will be an impairment of \$58.5 million.

C. Reversal of impairment of intangible exploration assets 2021:

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

At December 31, 2021, the Company determined that due to an increase in the oil price and a reduction of the impact from the global pandemic to the wider global market since 2020, that it was appropriate to consider if there had been a reversal of the impairment recognized in 2020. The results of the impairment reversal test indicated that the recoverable amount was not in excess of the carrying value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**8. Accounts payable and accrued liabilities:**

	December 31, 2022	December 31, 2021
Provision for unresolved joint venture matters	10.0	-
Joint venture payables, tax settlement and administrative accruals	27.2	3.7
Balance, end of the year	37.2	3.7

A provision of \$10.0 million related to unresolved Kenya joint venture matters has been recognized in intangible exploration assets.

Joint venture payables, tax settlement and administrative accruals includes a liability for the ongoing court case in Kenya following the decision by the High Court of Kenya.

The Company's Kenyan Branch, of its wholly owned subsidiary, Africa Oil Kenya B.V. ("AOKBV"), 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.

On April 8, 2020, Africa Oil announced that Kenya Tax Appeals Tribunal ("TAT") ruled in favour of AOKBV with regards to the CIT assessments and in favour of KRA with regards to the VAT assessments. Subsequently, AOKBV filed an appeal with the High Court of Kenya to challenge the VAT decision and KRA filed an appeal in relation to the CIT decision.

On November 30, 2022, the High Court of Kenya announced its decisions on AOKBV and KRA's Tax Appeal. AOKBV's appeal with regard to the VAT assessment was partly successful and the High Court concluded that AOKBV owes VAT in an amount of Kenyan Shillings 2,293,334,065 (approximately US\$ 18.7 million). The KRA's appeal with regard to the CIT decision was also partly successful and the High Court concluded that the KRA was correct to disallow certain costs claimed by AOKBV; however, it is not expected to have a material cashflow impact to the Company.

AOKBV maintains its position that the VAT assessment is without merit and has duly filed a Notice of Appeal with Kenya's Court of Appeal to challenge the position. The KRA has filed a Notice of Appeal regarding the CIT assessment. There is uncertainty as to the final outcome of the ongoing court case and therefore, the final outcome is indeterminable at this time. Although AOKBV is taking legal advice on the options available to it in view of this decision, including the option to appeal, a liability has been recognised as at December 31, 2022, as a result of the High Court ruling.

9. Provision for site restoration:

	December 31, 2022	December 31, 2021
Balance, beginning of the year	-	-
Additions in the year	5.3	-
Balance, end of the year	5.3	-

The fair value of the provision for site restoration was based on the estimated future cash flows to decommission the exploration and development properties at the end of their useful life. The discount rate used to determine the net present value of the decommissioning obligation was 3.5% based on a risk-free rate with a similar maturity to that of the timing of the expected cash flows and a long term inflation rate of 2%.

The undiscounted costs at December 31, 2022, were estimated to be \$7.7 million, net to the Company, and include the costs of physical well abandonment and to remove equipment from local bases. The costs are estimated to be incurred in approximately 25 years. The total provision is \$5.3 million.

10. Debt:

	December 31, 2022	December 31, 2021
Balance, beginning of the year	-	141.0
Repayment of Term Loan	-	(141.0)
Drawdown of Corporate Facility	-	98.0
Repayment of Corporate Facility	-	(98.0)
Balance, end of the year	-	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

In the second quarter of 2021, the Company agreed a new Corporate Facility to refinance its Prime acquisition facility ("Term Loan") for an amount up to \$160.0 million with a three-year term. On July 30, 2021, \$98.0 million was drawn down under the Corporate Facility to repay the Term Loan in full. By November 2021 the facility was repaid in full with the proceeds from Prime dividends. The Corporate Facility carries interest of 1 month-Libor plus a margin of 6.5% in the first year, 7.0% in the second year and 7.5% in the third year.

On January 28, 2022, the Company agreed a number of amendments to the Corporate Facility with the existing lenders. The available amount increased from \$62.0 million to \$100.0 million, and the availability period was extended to December 31, 2022, from May 13, 2022. The principal amounts, if drawn, may not exceed \$80.0 million by September 30, 2023, and \$50.0 million by February 29, 2024. The maturity date, the loan purpose and interest margins were unchanged. On December 7, 2022, the Company agreed to extend the availability period of the Corporate Facility with existing lenders to May 31, 2023.

On October 20, 2022, the Company agreed amendments which will become effective on licence renewal being received on OML 130 within Prime. The Corporate Facility amount will be increased from \$100.0 million to \$200.0 million and can be drawn until October 20, 2023. The maturity date has been extended to October 20, 2025.

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

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

The Corporate Facility is subject to financial and liquidity covenants. The Company has been in compliance with the covenants in the year ended December 31, 2022.

11. Share capital:

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

B. Issued:

	December 31, 2022		December 31, 2021	
	Shares	Amount	Shares	Amount
Balance, beginning of the year	474,655,355	1,309.1	471,960,472	1,306.5
Settlement of Performance Share Units	1,170,149	1.9	515,445	0.5
Settlement of Restricted Share Units	678,224	1.2	882,104	0.9
Exercise of Share Options	3,724,000	3.4	1,297,334	1.2
Return and cancellation of shares	(11,858)	-	-	-
Cancellation of shares repurchased	(17,425,190)	(47.9)	-	-
Balance, end of the year	462,790,680	1,267.7	474,655,355	1,309.1

The Company launched a Normal Course Issuer Bid (share buyback) program on September 27, 2022. Since that date to December 31, 2022, a total of 17,425,190 Africa Oil common shares have been repurchased and cancelled. The balance of share capital has been reduced by determining the average per-share amounts in the share capital account, before cancellation of shares repurchased, and applying this to the numbers of shares cancelled. The difference between the reduction in share capital and the amount paid for shares repurchased has been added to the balance of contributed surplus.

In the year ended December 31, 2022, the Board of Directors approved an initial aggregate annual dividend of \$0.05 per share which was declared and paid semi-annually with \$11.9 million (\$0.025 per share) being paid in both March and September 2022.

12. Commitments and contingencies:

A. Investment in Prime:

Under the Prime Sale and Purchase Agreement completed on January 14, 2020, a deferred payment of \$118.0 million, subject to adjustment, may be due to the seller contingent upon the timing and final OML 127 tract participation in the Agbami field. The signing of the Securitization Agreement by Prime has led to the Company reassessing its view of the likelihood of making a contingent consideration payment to the seller. The signing of the Securitization Agreement by Prime does not constitute a redetermination of the tract participation and therefore does not trigger the payment of a contingent consideration under the Sale and Purchase Agreement but, at the Company's discretion, could trigger discussions with the seller. The outcome of this process is uncertain. In 2021, the Company recorded \$32.0 million as contingent consideration and increased the Company's investment in Prime.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**B. Kenya license commitments:**

Under the terms of the Block 10BA PSC, the Company received approval from the Ministry of Petroleum and Mining for the Republic of Kenya for an extension to the second additional exploration period to April 26, 2023, allowing time for the joint venture to include and align the Block 10BA work program with the proposed FDP for Blocks 10BB and 13T. During the second additional exploration period, the Company and its partners are obligated to complete geological and geophysical operations, including either 500 km² of 2D or 45 km² of 3D seismic. Additionally, the Company and its partners are obligated to drill one exploration well. The total minimum gross expenditure obligation for the second additional exploration period is \$19.0 million. The JV partners have not provided any letters of credit or guarantees for this commitment. The Company has presented a plan for exploration and appraisal in Block 10BA in the FDP. This drilling plan was formally submitted in December 2021. At December 31, 2022, the Company's working interest in Block 10BA was 25%.

C. South Africa license commitments:

The application to extend the Block 3B/4B license and to move into the first extension period of 2 years was approved on October 27, 2022. The work commitment for this extension period includes the completion of 2,020 square kilometres of 3D seismic reprocessing and integration of well and seismic data. At December 31, 2022, the Company's WI in Block 3B/4B was 20%.

13. Finance income and expense:

Finance income and expense for the years ended December 31, 2022, and December 31, 2021, is comprised of the following:

For the years ended	December 31, 2022	December 31, 2021
Finance income	2.4	0.1
Finance expense	(3.5)	(18.3)

Interest income includes interest earned on cash in bank accounts and also interest earned on short term deposits.

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

14. Net (loss)/ income per share:

For the years ended	December 31, 2022			December 31, 2021		
	Net loss	Weighted Average		Net income	Weighted Average	
		Number of shares	Per share amounts		Number of shares	Per share amounts
Basic (loss)/ income per share						
Net (loss)/ income attributable to common shareholders	(60.3)	474,366,637	(0.13)	190.7	473,332,153	0.40
Effect of dilutive securities	-	-	-	-	4,029,133	-
Dilutive (loss)/ income per share	(60.3)	474,366,637	(0.13)	190.7	477,361,286	0.40

In the year ended December 31, 2022, the Company made a loss and therefore all potential dilutive shares are considered anti-dilutive. In the year ended December 31, 2022, 1,591,613 options, 2,066,248 RSU's and 8,553,628 PSU's were anti-dilutive and were not included in the calculation of dilutive loss per share (year ended December 31, 2021 - 22,616 options were anti-dilutive). PSU's are awarded a performance multiple ranging from nil to 200% (see note 15) which leads to an increase in the anti-dilutive potential of these instruments. The Company used an average market price of CAD \$2.48 per share to calculate the anti-dilutive effect of share purchase options (year ended December 31, 2021 - CAD \$1.47 per share was used to calculate the dilutive effect).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

15. Share-based compensation:

In the year ended December 31, 2022, the Company recognized a total of \$9.5 million in share-based compensation expense relating to the Long-Term Incentive Plan ("LTIP") and Stock Option Plan (year ended December 31, 2021 - \$6.3 million).

A. Share purchase options:

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

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

	December 31, 2022		December 31, 2021	
	Number of options	Weighted average Exercise price (CAD\$)	Number of options	Weighted average Exercise price (CAD\$)
Outstanding, beginning of the year	6,877,950	1.18	9,618,000	1.31
Granted	-	-	22,616	1.61
Expired	-	-	(1,233,000)	2.12
Forfeited	(153,334)	1.21	(232,332)	1.49
Exercised	(3,724,000)	1.19	(1,297,334)	1.17
Balance, end of the year	3,000,616	1.16	6,877,950	1.18

In the year ended December 31, 2022, no share purchase options expired (year ended December 31, 2021 - 1,233,000). In the year ended December 31, 2022, 3,724,000 million share purchase options were exercised (year ended December 31, 2021 - 1,297,334 million).

The following table summarizes information regarding the Company's share purchase options outstanding and exercisable at December 31, 2022:

Weighted Average Exercise price (CAD\$/share)	Number outstanding	Number exercisable	Weighted average remaining contractual life in years
1.06	456,000	456,000	0.96
1.06	50,000	50,000	1.02
1.13	70,000	70,000	1.63
1.22	155,667	155,667	1.88
1.15	1,079,333	1,079,333	1.95
1.21	1,167,000	1,167,000	2.95
1.61	22,616	15,077	3.63
	3,000,616	2,993,077	

All options granted vest over a two-year period, of which one-third vest immediately, and expire five years after the grant date. In the year ended December 31, 2022, the Company recognized \$0.1 million as a share-based compensation expense (year ended December 31, 2021 - \$0.4 million), related to share purchase options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**B. Performance share units ("PSUs"):**

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

The Company's PSUs outstanding are as follows:

	December 31, 2022	December 31, 2021
	Number of PSUs	Number of PSUs
Outstanding, beginning of the year	7,795,512	7,615,412
Granted	2,165,986	2,331,600
Cancelled	(423,945)	(1,275,840)
Vested	(1,895,667)	(875,660)
Balance, end of the year	7,641,886	7,795,512

In March 2022, 1,788,356 PSUs vested in which 671,863 PSUs were settled for a cash payment of \$1.2 million and the remaining were settled via the issuance of common shares of the Company. In November 2022, 107,311 PSUs vested and were settled half in shares and the remaining for a cash payment of \$0.1 million.

The Company accounts for PSUs as share-based awards whereby the estimated fair value of the grant is expensed evenly throughout the remaining vesting period. In the year ended December 31, 2022, the Company recognized \$7.7 million in share-based compensation relating to the PSUs (year ended December 31, 2021 - \$3.9 million) with the increase mainly caused by a higher share price. These liabilities are revalued quarterly.

C. Restricted share units ("RSUs"):

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

The Company's RSUs outstanding are as follows:

	December 31, 2022	December 31, 2021
	Number of RSUs	Number of RSUs
Outstanding, beginning of the year	2,668,335	3,189,469
Granted	410,691	605,000
Cancelled	(108,100)	-
Vested	(904,678)	(1,126,134)
Balance, end of the year	2,066,248	2,668,335

In 2022, 410,691 RSUs were granted to Non-Executive Directors only (year ended December 31, 2021 - 605,000). RSUs were not granted to other plan participants in 2022 to align with the Company's revised compensation strategy of granting PSUs to executive management.

In March 2022, 893,133 RSUs vested with 220,682 being settled for a cash payment of \$0.4 million and the remaining were settled via the issuance of common shares of the Company. In November 2022, 11,545 RSUs vested and were settled half in shares and the remaining in cash.

The Company accounts for RSUs as share-based awards whereby the estimated fair value of the grant is expensed evenly throughout the remaining vesting period. In the year ended December 31, 2022, the Company recognized \$1.7 million in share-based compensation relating to the RSUs (year ended December 31, 2021 - \$2.0 million). These liabilities are revalued quarterly.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**16. Capital management:**

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

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

17. Related party transactions:**A. Transactions with Africa Energy:**

As at December 31, 2022, the Company's ownership interest in Africa Energy is approximately 19.7%.

Services Agreements:

For the years ended	Service provider	Service provided	December 31, 2022	December 31, 2021
General Management and Service Agreement	AOC to Africa Energy	Administrative services provided to Africa Energy.	-	0.1
General Technical and Administrative Service Agreement	Africa Energy to AOSAC	Technical and administrative services relating to its operating interest in Block 3B/4B, South Africa.	0.4	0.4

In December 2022, the Company signed a Promissory note with Africa Energy, alongside other parties, with a total value of \$5.0 million, in which the Company agreed to provide \$2.0 million. This amount was drawn in December 2022. The note carries interest of 10% from drawdown until October 31, 2023, at which time the annual interest rate for any outstanding amount increases to 15%, retrospectively. The maturity date of the loan is January 31, 2024.

B. Transactions with Eco:

On June 28, 2021, the Company subscribed for 5,945,913 new common shares at a price of CAD\$0.41 per new common share totaling \$2.0 million and was granted the same number of warrants to acquire common shares at the same price over a two-year period.

On April 6, 2022, the Company subscribed for 10,178,116 common shares for a consideration of \$4.0 million and following this the Company held 17.3% of the enlarged share capital in Eco (see note 6).

On June 27, 2022, the Company subscribed for 4,864,865 common shares for a consideration of \$1.8 million and the Company held 15.9% of the enlarged share capital in Eco (see note 6).

As at December 31, 2022, the Company's ownership interest in Eco is approximately 15.0%.

C. Transactions with Impact:

On July 18, 2022, the Company subscribed for 31,936,373 shares in Impact for \$19.0 million and following the transaction the Company held 30.9% of the enlarged share capital in Impact (see note 6).

As at December 31, 2022, the Company's ownership interest in Impact is approximately 30.9%.

D. Remuneration of Directors and Senior Management:

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

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

For the years ended	December 31, 2022	December 31, 2021
Non-Executive Directors' fees	0.4	0.4
Non-Executive Directors' share-based compensation	1.0	0.9
Managements' short-term wages and benefits	3.8	3.1
Managements' share-based compensation	4.8	3.4
	10.0	7.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

18. Subsidiaries:

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

19. Financial risk management:

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

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

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

A. Credit risk:

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The majority of our credit exposure relates to amounts due from our joint venture partners and a loan with Africa Energy. The risk of our joint venture partners defaulting on their obligations per their respective joint operating and farmout agreements is mitigated as there are contractual provisions allowing the Company to default joint venture partners who are non-performing and reacquire any previous farmed out working interests. The maximum exposure for the Company is equal to the sum of its cash and accounts receivable. As at December 31, 2022, the Company held \$0.9 million (as at December 31, 2021 - \$0.9 million) of cash in financial institutions outside of Canada and the UK. The Company also held \$30.2 million (as at December 31, 2022 - nil) in short-term deposits in countries outside of Canada and the UK with lending banks in the Corporate Facility.

B. Liquidity risk:

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

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

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

The Company has \$100.0 million of available debt facility which improve the Company's access to liquidity to fund operations and acquisitions as required. Any loan repayments are calculated to be protective of the Company's liquidity position and if drawn, the Corporate Facility would be repaid from the proceeds of dividends received from Prime, while ensuring the Company preserves a sufficient minimum cash balance to conduct operations. The Company agreed amendments which will become effective on licence renewal being received on OML 130 within Prime. The Corporate Facility amount will be increased from \$100.0 million to \$200.0 million and can be drawn until October 20, 2023. The maturity date has been extended to October 20, 2025 (see note 10).

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

The Company has no maturities of its material contractual financial liabilities in excess of six months as at December 31, 2022 (As at December 31, 2021 - no maturities of its material contractual liabilities in excess of six months).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**C. Market risk:**

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

i. Foreign currency exchange rate risk:

The Company is exposed to changes in foreign exchange rates as expenses in international subsidiaries, oil and gas expenditures, or financial instruments may fluctuate due to changes in rates. The Company's exposure to foreign currency exchange risk is mitigated by the fact that the Company sources the majority of its capital projects and expenditures in US dollars. The Company has not entered into any instruments to manage foreign exchange risk.

ii. Interest rate risk:

The Corporate Facility has a variable interest rate, that is referenced to LIBOR and will expose the Company to interest rate risk over the term of the loan. The Financial Conduct Authority of the United Kingdom has announced that one month USD LIBOR (which the Corporate Facility applies) will cease to be provided by any administrator or no longer be representative after June 30, 2023. The amendment to the Corporate Facility signed on October 20, 2022, includes SOFR as the replacement benchmark from the effective date of the amendment.

iii. Commodity price risk:

The Company has an equity holding in Prime (see note 5), which has three producing fields within OML127 and OML 130, both with significant levels of production. A change in commodity prices may affect the dividends received from this investment. Prime benefits from a robust oil price forward sales program and the forward sales policy requires forward selling between 50% and 70% of its forecast liftings on a rolling 12-month basis. These contracts are with counterparties including oil supermajors. The counterparties are part of groups with investment grade credit ratings.

iv. Share price risk:

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

20. Financial instruments:

As at December 31, 2022, and December 31, 2021, assets and liabilities that are measured at fair value are classified into levels reflecting the method used to make the measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

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

21. Income taxes:

The tax rate consists of the combined federal and provincial statutory tax rates for the Company for the years ended December 31, 2022, and December 31, 2021. Substantially all of the differences between actual income tax expense of nil and the expected Canadian federal and provincial statutory corporate income tax expense/ (recovery) related to losses not recognized.

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

For the years ended	December 31, 2022	December 31, 2021
Net (loss)/ profit and comprehensive (loss)/ profit	(60.3)	190.7
Combined federal and provincial statutory income tax rate	28.0%	27.0%
Expected (recovery)/ expense	(16.9)	51.5
Foreign rate differences	(0.5)	(1.0)
Permanent differences	2.5	0.3
Share-based compensation	0.7	0.5
Equity earnings	(37.5)	(63.0)
Non-taxable expense items	47.8	-
Unrecognized tax losses	3.9	11.7
Tax recovery	-	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The Company has the following unrecognized deductible temporary differences:

As at	December 31, 2022	December 31, 2021
Unrecognized deductible temporary differences		
Capital assets	0.8	(0.6)
Unrealized loss on equity investments	34.0	25.8
Capital losses carried forward	12.9	12.9
Share-based compensation	12.6	7.9
Non-capital and operating losses carried forward	434.6	489.3
Charitable donations	1.5	2.8
	496.4	538.1

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

No deferred tax asset or liability is recognized at December 31, 2022.

22. Supplementary information:

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

For the years ended	December 31, 2022	December 31, 2021
Relating to:		
Operating activities	1.2	0.2
Investing activities	0.3	(5.7)
Changes in non-cash working capital	1.5	(5.5)

23. Subsequent events:

From January 1, 2023, to February 24, 2023, a total of 2.7 million Africa Oil common shares have been repurchased under the Normal Course Issuer Bid, for an amount of approximately \$4.9 million and 2.7 million shares have been cancelled.

On February 20, 2023, the Company announced it had signed two PSCs with the Republic of Equatorial Guinea for offshore Blocks EG-18 and EG-31. These PSCs are subject to ratification by the country's government. Africa Oil will hold eighty per cent (80%) operated interests in each block with the balance to be held by GEPetrol, the national oil company of Equatorial Guinea. GEPetrol has the option of acquiring an additional fifteen percent (15%) participating interest in each block. Both blocks are covered by 3D seismic data and the total minimum work commitment for both blocks in the initial exploration periods is a combined total of USD 7 million, with no drilling commitment.

On February 27, 2023, the Company announced it will pay a semi-annual dividend of \$0.025 per share (approximately \$11.6 million) with the payment to be made at the end of March 2023.

GLOSSARY

A	"Africa Energy"	means Africa Energy Corp. an international oil and gas exploration company that holds a 27.5% participating interest in the offshore Exploration Right for Block 2B in South Africa, an effective 14.6% participating interest in offshore PEL 37, and an effective 9.9% participating interest in the Exploration Right for Block 11B/12B offshore South Africa.
	"Africa Oil", "AOC", or the "Company"	means Africa Oil Corp.
	"AGC"	means Senegal Guinea Bissau Joint Development Zone.
	"AGL"	means Azinam Group Ltd.
	"Applicable law"	means all laws and regulations issued by authorities that have appropriate jurisdiction over the Company.
	"Azinam"	means Azinam Ltd.
B	"boepd"	means barrels of oil equivalent per day.
C	"CGU"	means Cash Generating Unit. A Cash Generating Unit is defined as assets that are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.
	"Chevron"	means Chevron Corp.
	"CIT"	means Corporate Income Tax.
	"Concessions", "PSC" or "Production Sharing Contract"	means concessions, production sharing contracts and other similar agreements entered into with a host government providing for petroleum operations in a defined area and the division of petroleum production from the petroleum operations.
D	"Corporate Facility"	means a \$150.0 million facility dated May 13, 2021, with a three-year term, amended to a \$160.0 million facility on July 16, 2021, and subsequently amended on January 28, 2022, to increase the available amount under the facility to \$100.0 million from the then unutilized amount of \$62.0 million, and an extension of the availability period to December 31, 2022, from May 13, 2022. On December 7, 2022, the Company agreed to extend the availability period of the Corporate Facility with existing lenders to May 31, 2023.
	"DD&A"	means Depreciation, Depletion and Amortization.
E	"E&A"	means Exploration and Appraisal.
	"EBITDA"	means Earnings Before Interest, Taxes, Depreciation & Impairment, and Amortization.
	"EBITDAX"	means Earnings Before Interest, Taxes, Depreciation & Impairment, Amortization and Exploration Expenses.
	"Eco"	means Eco (Atlantic) Oil & Gas Ltd. An international oil and gas exploration company that holds working interests in four exploration blocks offshore Namibia and one exploration block offshore Guyana.
	"Entitlement production"	means production that is calculated using the economic interest methodology and includes cost recovery oil, tax oil and profit oil.
	"Equinor"	means Equinor ASA.
	"ESG"	means Environmental, Social and Governance.
	"ESIA"	means Environmental and Social Impact Assessment.
F	"FCF"	means Free Cash Flow.
	"FDP"	means Field Development Plan.
	"FID"	means Final Investment Decision.
	"FPSO"	means Floating Production Storage and Offloading.
G	"GoK"	means Government of Kenya.
I	"IFRS"	means International Financial Reporting Standards.
	"Impact"	means Impact Oil and Gas Ltd, a privately owned exploration company with a strategic focus on large scale, mid to deep water plays of sufficient materiality to be of interest to major companies. Impact has an asset base across the offshore margins of Southern and West Africa.

J	"JHI"	means JHI Associates Inc.
	"JV"	means Joint Venture.
K	"KRA"	means Kenya Revenue Authority.
L	"LTIP"	means Long Term Incentive Plan.
	"Lokichar Development Project"	means the development of the oil resources contained in the South Lokichar Basin (Blocks 10BB and 13T (Kenya)), for export via a pipeline to the coast of Kenya.
M	"M&A"	means mergers and acquisitions.
	"MD&A"	means Management's Discussion and Analysis.
	"MMbbl"	means one million barrels.
	"MMBoe"	means millions of barrels of oil equivalent.
N	"NI 51-101"	means National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators and the companion policies and forms thereto, as amended from time to time.
	"NI 52-109"	means National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings and the companion policies and forms thereto, as amended from time to time.
	"NUPRC"	means Nigeria Upstream Petroleum Regulatory Commission.
O	"OML"	means Oil Mining Lease.
P	"Petrovida"	means Petrovida Holding B.V.
	"PIA"	means Petroleum Industry Act.
	"PPT"	means Profit Petroleum Tax.
	"Prime" or "Prime Oil & Gas Coöperatief U.A."	means Prime Oil & Gas Coöperatief U.A., previously known as Prime Oil & Gas B.V., a company that holds interests in deepwater Nigeria production and development assets.
	"Project Oil Kenya"	means the Company's Kenya development project incorporating Blocks 10BB and 13T.
	"PSA"	means Petroleum Sharing Agreement.
	"PSU"	means Performance Share Unit.
	"PXF Facility"	means Pre-Export Finance Facility.
R	"RBL"	means Reserves Based Lending.
	"RSU"	means Restricted Share Unit.
S	"spud" or "spudded"	means the initial drilling for an oil well.
T	"TAT"	means Tax Appeals Tribunal.
	"Term Loan"	means a \$250.0 million facility dated January 11, 2020, provided by BTG Pactual S.A for the purpose of funding the acquisition of 50% of Petrobras Oil & Gas B.V. (now Prime Oil & Gas Coöperatief U.A.).
	"TotalEnergies"	means TotalEnergies SE and subsidiaries.
	"TSX"	means Toronto Stock Exchange.
	"Tullow"	means Tullow Oil plc.
U	"US"	means United States.
V	"VAT"	means Value-added tax.
W	"WI"	means working interest.
	"WI production"	means production based on the percentage of working interest owned.

