Oando Energy Resources

Management's Discussion and Analysis

For the three and six months ended June 30, 2015 and 2014

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements of Oando Energy Resources Inc. ("OER" or the "Corporation") for the three and six months ended June 30, 2015, as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2014. This MD&A is dated and based on information available to July 29, 2015.

The interim consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All financial information is presented in US dollars ("USD"), unless otherwise noted.

See Advisory Regarding Forward Looking Statements at the end of this document.

Business of the Corporation

OER is a publicly traded company with common shares and warrants listed on the Toronto Stock Exchange ("TSX") under the symbols "OER" and "OER.WT", respectively. The Corporation is involved in the acquisition of petroleum and natural gas rights, the exploration for, and development and production of, oil and natural gas primarily focused in Nigeria and São Tomé and Príncipe. The ultimate controlling shareholder and parent company of the Corporation is Oando PLC. The Corporation holds interests in licences for the exploration, development and production of oil and gas fields or blocks located onshore on land and swamp, and offshore in shallow and deep waters.

Operating in Nigeria affords OER certain advantages as an indigenous independent oil company. The Nigerian Government implemented certain initiatives to increase the participation of Nigerian companies in exploration and production through, among other things, the Marginal Field Development Program which has resulted in marginal fields being awarded to Nigerian companies and the Local Content Act which provides for preferential treatment to Nigerian companies by prescribing minimum thresholds of Nigerian participation for various activities in the oil and gas sector, including the award of Licenses.

The Corporation's strategy is to continually grow reserves through the development of existing assets and the acquisition of new assets. As international oil and gas companies shift their focus to offshore projects, they are divesting their onshore assets, offering opportunities for indigenous independents, like OER, to acquire reserves and resources. Average production of OER in the second quarter of 2015 was 56,917 boe/d, consisting of 36% crude oil and 64% natural gas and natural gas liquids ("NLG"). On a revenue basis, crude oil comprised 71% and natural gas and NGLs comprised 29% of oil and gas sales before royalties.

Frequently reoccurring terms

Production volumes are presented on a working interest basis, before royalties, unless otherwise noted. Crude oil volumes are presented in barrels ("bbls") and NGLs are presented in barrels of oil equivalent ("boe"). Natural gas volumes have been converted to boe using a conversion ratio of six thousand cubic feet ("mcf") of natural gas to one boe. Cubic feet equivalent may be misleading, particularly if used in isolation. A conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent value equivalency at the wellhead.

For convenience, references in this document to "OER", the "Corporation", "we", "our" and "its" may, where applicable, refer only to or include any relevant direct and indirect subsidiary Corporations ("Subsidiaries") of Oando Energy Resources Inc., and the assets, activities and initiatives of such Subsidiaries.

Changes in accounting policies and disclosures

There are no other IFRSs or IFRIC interpretations that are effective January 1, 2015 that would be expected to have a material impact on the Corporation.

Critical estimates and judgements

The Corporation makes estimates and assumptions concerning the future. The resulting accounting estimates may change from period to period and the actual result may be materially different then the estimate. Changes in assumptions and judgments from December 31, 2014 to June 30, 2015 included the decommissioning obligation discount rates that changed to a range of 14.7% to 14.9% from 15.2% to 15.49%, also the inflation rate changed to 9.0% from 8.0%.

Comparative figures

For the period ended June 30, 2015, certain prior period amounts in the statements of comprehensive loss have been reclassified for the purpose of comparability with current period presentation. These changes in classification do not impact the opening interim consolidated statements of financial position of the Corporation.

Acquisition costs

Acquisition costs have been reclassified from general and administrative ("G&A") expenses to conform to the current period presentation. For the three and six months ended June 30, 2014, acquisition costs of $22.6 million were reclassified from G&A expenses to the acquisition costs category.

Current and deferred income tax (expense) recovery

The income tax on the Interim consolidated statement of comprehensive loss for the three and six months ended June 30, 2014 periods has been reclassified, by presenting current income tax and deferred income tax individually to conform to the interim consolidated financial statement presentation of 2015. The income tax recovery of $1.5 million for the three months ended June 30, 2014 has been presented as a current income tax expense of $42 thousand and a deferred tax recovery of $1.5 million. The income tax expense of $6.0 million for the six months ended June 30, 2014 has been presented as a current income tax recovery of $0.3 million and deferred tax expense of $6.3 million.

Non-GAAP measures

Funds from operations

Funds from operations is not a measurement defined in IFRS, but is a financial term commonly used in the oil and gas industry. The Corporation believes that in addition to cash flows from operating activities as reported in the interim consolidated statements of cash flows, funds from operations is a useful supplemental measure, as it provides an indication of the funds generated by OER's principal business activities prior to adjusting for proceeds from early hedge settlements and changes in non-cash working capital. The Corporation considers this to be a key measure of performance as it demonstrates its ability to generate cash flow necessary to fund growth through additional capital investments. Funds from operations may not be directly comparable to similar measures presented by other companies, as there is no standardized measure. See reconciliation of funds from operations to cash flows from operating activities under results of operations.

Netback

Operating netback is not a measurement defined in IFRS, but is a financial term commonly used in the oil and gas industry. Operating netback has been calculated by taking revenue less royalties and production expense balances directly from the interim consolidated financial statements note 14 and the interim consolidated statements of comprehensive loss. In calculating dollar per boe amounts, sales, royalties, and expenses are matched with the associated volume. Operating netbacks may not be directly comparable to similar measures presented by other companies, as there is no standardized measure. See reconciliation of netback under results of operations.

Foreign Operations and Risk Factors

The Corporation's producing crude oil properties and operations are located in Nigeria. As such, the Corporation is subject to significant political, economic and other uncertainties relating to foreign operations conducted in Nigeria. There can be no assurance that the Corporation will be able to successfully conduct such operations, and a failure to do so would have a material adverse effect on the Corporation's financial position, results of operations and cash flows.

OER's Annual Information Form contains a summary of various risk factors which are relevant to investors.

Currency

All information included in this document and the interim consolidated financial statements and comparative information is shown in US dollars, unless otherwise noted. The Corporation's financial results are reported in US dollars, which is also its functional currency of operations in Nigeria.

Additional information

Further information regarding Oando Energy Resources Inc., including its Annual Information Form, can be accessed under the Corporation's public profile on SEDAR at www.sedar.com.

Financial and Operational Highlights

- In the second quarter of 2015 production increased to 5.2 MMboe (average 56,917 boe/day) from 0.4 MMboe (average 4,549 boe/day) in the second quarter of 2014, which was an increase from 5.0 MMboe (average 55,399 boe/day) achieved in the first quarter of 2015. During the six months ended June 30, 2015 the production increased to 10.2 MMboe, as compared to 0.8 MMboe in the same period of 2014. The increase between the 2015 to 2014 periods is primarily from the Nigerian onshore and offshore assets acquired from the ConocoPhillips Company ("COP Acquisition") that included substantial production from OMLs 60 to 63, significant reserves and resources, and a considerable base of development and exploration opportunities.

- Net revenue was $90.2 million in the second quarter of 2015, an increase of $59.8 million over $30.4 million earned in the second quarter of 2014. During the six months ended June 30, 2015 revenues increased to $222.7 from $62.6 million recognized in the same period of 2014. The increases in revenue between the 2015 and 2014 periods is primary as a result of the COP Acquisition producing assets of OML 60 to 63. Revenues in the second quarter 2015 decreased $42.2 million from $132.4 million realized in the first quarter of 2015. The quarter to quarter decrease was mainly the result of a portion of second quarter production not being sold until early July 2015 (with a market value of $23.6 million) to accommodate changes to customer lifting schedules.

- The Corporation has hedged 9,795 bbl/day of crude oil production at $65/bbl (average) with expiries ranging from July 2017 to July 2019 and further upside if certain price targets are met. The hedges represent 47% of second quarter production rates of crude oil.

- The Corporation had a net loss of $29.3 million in the second quarter of 2015, as compared to a net loss of $137.7 million in the second quarter of 2014. During the six months ended June 30, 2015 the Corporation incurred a net loss of $50.4 million, as compared to a net loss of $177.5 million in the same period of 2014. The significant improvement in net income between the periods of comparison was primarily influenced by the significantly lower financial instrument losses in 2015, and increased earnings from the operations at OMLs 60 to 63, partially offset by the increased depletion in 2015.

- Production expenses in the second quarter of 2015 increased to $51.3 million from $8.0 million in 2014 and during the six months ended June 30, 2015 increased to $116.1 million from $15.6 million in the first half of 2014. The increases in the three and six months ended period were primarily due to additional production expenses from OMLs 60 to 63. Production expenses per boe improved to $11.42/boe in the first half of 2015 as compared to $18.93/boe in the same period of 2014.

- General and administrative costs ("G&A") costs for the second quarter of 2015 increased to $16.8 million from $13.4 million in the second quarter of 2014. During the six months ended June 30, 2015 G&A increase to $35.2 million from $19.0 million in the first half of 2014. The increase was primarily related to increased employee costs and administrative expenses related to the significant growth of OER since the COP Acquisition. On a per boe basis G&A was $3.46/boe during the first half of 2015, as compared to $23.10/boe in the same period of 2014, due to the significant increase in production relative to the G&A increase.

- Second quarter funds from operations increased to $23.8 million, from negative $11.8 million in the second quarter of 2014. During the first half of 2015 the funds from operations increased to $73.2 million from $8.5 million in the same period of 2014. The increases in 2015 over 2014 were primarily a result of increased cash flow generated by the new production assets acquired in the third quarter of 2014. The second quarter funds from operations decreased from the first quarter amount of $49.4 million, as a result of decreased sales resulting from changes to customer lifting schedules.

- Capital expenditures of $19.1 million and $56.9 million were incurred during the three and six months ended June 30, 2015, respectively. During the first half of 2015 the capital expenditures consisted of $25.8 million at OMLs 60 to 63, $25.5 million at OML 125 and $2.9 million spent at Qua Ibo and Ebendo, and $2.8 million on other assets.

- As at June 30, 2015, OER had a working capital deficiency of $505.5 million, as compared to a working capital deficiency of $567.2 million at December 31, 2014. The improvement in working capital was primarily related to the reclassification of current borrowings to non-current borrowings as a result of meeting loan covenant requirements in the second quarter, which was partially offset by repayments of borrowings. In June 2015, the Corporation received consent from the lenders of its $450 million loan to waive the current ratio requirement for the periods ending June 30, 2015, December 31, 2015, and June 30, 2016. At June 30, 2015 the Corporation was in compliance will all other loan covenants. As a result, the current and long-term portion of the loans have been classified according to their maturity as set out by loan repayment schedules.

- On June 28th, 2015 there was a fire involving two crude storage tanks at the Ebocha Oil Centre in Rivers State, Nigeria and a third tank collapsed after suffering structural damages due to the fire outbreak. As a result of the incident, impairment charges of $6.7 million relating to the Corporation's share of the infrastructure and facilities damaged. In addition, on July 9, 2015, a fire occurred during the inspection and repair of the Tebidaba-Clough Creek pipeline resulting in the unfortunate death of 14 contract personnel. The extent of the damage is currently unknown but it will not likely have a significant impact on crude oil deliveries. Both incidents are currently being investigated by OER and the operator.

- In July 2015 the Corporation extended the repayment date on the $100 million subordinated debt facility to October 8, 2015 and is currently negotiating an increase to the capacity of the $450 million senior secured facility which, if successful, will be used to repay the $100 million subordinated debt.

Selected Financial and Operational Highlights

The table below summarizes selected financial and operational information for the three months ended June 30, 2015, March 31, 2015 and June 30, 2014 and the six months ended June 30, 2015 and June 30, 2014.

	Three months ended			Six months ended	
	Jun. 30, 2015	Mar. 31, 2015	Jun. 30, 2014	Jun. 30, 2015	Jun. 30, 2014
Financial:					
Revenue	90,240	132,415	30,440	222,655	62,603
Funds from operations [1]	23,813	49,365	(11,808)	73,178	8,508
Comprehensive income (loss)	(29,255)	(21,096)	(137,668)	(50,351)	(177,549)
Net income (loss) per share: Basic	(0.04)	(0.03)	(0.24)	(0.06)	(0.41)
Net income (loss) per share: Diluted	(0.04)	(0.03)	(0.24)	(0.06)	(0.41)
Total assets	2,922,598	2,971,858	1,662,142	2,922,598	1,662,142
Total non-current liabilities	1,201,823	1,033,688	245,925	1,201,545	245,925
Operational:					
Production:					
Crude oil (bbl)	1,889,965	1,844,576	413,984	3,734,541	821,786
NGL (boe)	333,381	341,491	-	674,872	-
Natural Gas (mcf)	17,736,221	16,799,262	-	34,535,483	-
Total production (boe)	5,179,383	4,985,944	413,984	10,165,327	821,786
Daily production:					
Crude oil (bbls/day)	20,769	20,495	4,549	20,633	4,540
NGLs (boe/day)	3,664	3,794	-	3,729	-
Natural Gas (mcf/day)	194,904	186,658	-	190,804	-
Total (boe/day)	56,917	55,399	4,549	56,163	4,540
Average selling prices [2, 3]					
Crude oil ($/bbl)	66.81	60.55	106.22	62.98	108.79
NGL ($/boe)	12.09	11.17	-	11.62	-
Natural gas ($/mcf)	1.98	2.24	-	2.11	-

[1] *See definition under non-GAAP measures.*
[2] *Before royalties and the Government share of profit oil.*
[3] *Average selling prices are calculated from volumes sold during the period.*

Current Outlook

The first half of 2015 has been a challenging period for the Corporation. Lower crude oil prices have reduced revenues and operating cash flows. In addition, unfortunate operational incidents, including the Ebocha fire described in greater detail below, have resulted in property damage and have impacted production and access to points of sale. Despite this, interest and principal payments were reduced as a result of first quarter debt repayments and in July 2015 the Corporation successfully extended the repayment date on the $100 million subordinated debt to October 8, 2015 and is currently negotiating an increase to the capacity of the $450 million secured facility by $110 million. The Corporation intends to repay the $100 million loan with the increased capacity from the $450 million senior secured facility which will effectively extend principal repayments over a 4 to 5 year period.

We expect 2015 to continue to be a challenging year for the Corporation and the oil and gas industry as a whole. Global crude oil prices have been volatile and could remain at current low levels for the remainder of 2015 and possibly longer, reducing potential revenues and operating cash flows. Furthermore, production rates have declined as a result of the Ebocha fire and could remain lower until the facilities impacted are repaired. Despite this, the Corporation remains well positioned due to the assets acquired in 2014, which include substantial production, significant reserves and resources, and a considerable base of development and exploration opportunities. The Corporation has hedged 9,795 bbl/day of crude oil production at $65 per bbl and earns approximately 25% of gross revenue from natural gas which is subject to pricing that has not been as volatile as crude oil prices. Furthermore, the Corporation, as an indigenous company, benefits from the initiatives offered by the Nigerian government to increase the participation of Nigerian companies in Nigeria's oil and gas industry, by means of preferential tax rates and oil and gas opportunities through the Marginal Field Development Program

For the remainder of 2015, the Corporation expects to continue with its strategy to consolidate the assets acquired in 2014 and optimize production. . Estimated capital expenditures have been reduced and the Corporation continues to work with its joint venture partners to identify initiatives that provide the best return on investment in 2015. As a result of decreasing our borrowings by $236.8 million through prepayment and scheduled debt repayments the Company expects to continue to incur lower future interest costs. Finally, the Corporation continues to employ prudent cost management strategies to reduce production expenses and G&A.

Results of Operations

The following provides an analysis of the Corporation's results of operations for the three and six months ended June 30, 2015 as compared to the three and six months ended June 30, 2014. The Corporation's only reportable segment is its oil and gas operations in Nigeria.

Revenue

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Crude oil	78,285	32,351	189,967	67,361
NGLs	4,032	-	7,845	-
Natural gas	27,963	-	57,998	-
Total oil and gas sales	110,280	32,351	255,810	67,361
Less: royalties	(23,061)	(2,561)	(41,600)	(5,901)
Oil and gas sales, net of royalties	87,219	29,790	214,210	61,460
Oil transportation tariffs and other	746	650	2,466	1,143
Kwale-Okpai power sales	2,275	-	5,979	-
Revenue, net of royalties	90,240	30,440	222,655	62,603

Oil and gas revenue is generated by the production and sale of crude oil, natural gas, and NGLs from the Corporation's interest in OMLs 60 to 63 (onshore), OML 125 (offshore), Ebendo (in OML 56, onshore), and Qua Ibo (in OML 13 onshore), all located in Nigeria. The Corporation also generates oil transportation tariff revenue from third parties by the Corporation's interest in various pipelines and revenues through the sale of power generated at the Kwale-Okpai independent power plant ("Kwale-Okpai IPP"). The Corporation's major customers include subsidiaries of international oil companies and other joint ventures in Nigeria. The Corporation earned the majority of its revenue from Eni Trading and Shipping S.p.A, Vitol SA and Nigeria Liquefied Natural Gas Limited.

In the second quarter of 2015 the Corporation generated $90.2 million in revenue, net of royalties, compared to $30.4 million in the same quarter of 2014. The $59.8 million increase was primarily a result of $59.3 million of new gross sales earned by OMLs 60 to 63, which were acquired on July 30, 2014. The $59.3 million of gross sales at OMLs 60 to 63 consisted of $46.1 million of crude oil, $3.9 million natural gas liquids, $28.0 million in natural gas sales, $2.3 million in power generation revenues at the Kwale-Okpai IPP, and $0.2 million from oil transportation tariffs, all before royalties of $21.2 million. In addition, a portion of June production was sold in July to accommodate changes to customer lifting schedules that resulted in delaying the recognition of a portion of June production until the third quarter. The delayed sales from OMLs 60 to 63 resulted in crude oil inventory, with a market value of $23.6

million, being recognized at cost of $6.7 million in the June 30, 2015 inventory with no recognition of sales. Crude oil revenue at OML 125 decreased $6.8 million primarily as result of significantly lower crude oil prices and decreased production levels. Crude oil revenues at Ebendo increased $1.0 million as a result of a large increase in production volumes, partially offset by lower crude oil prices. The Corporation realized sales of $5.6 million at Qua Ibo that commenced sales from production during the second quarter of 2015. Natural gas and NGLs are a new source of revenues to the Corporation that are produced at OMLs 60 to 63.

During the first half of 2015 the Corporation earned $222.7 in revenues, net of royalties, as compared to $62.6 million in the first half of 2014. The increase of $160.1 million is primarily due to new revenues from the acquired producing assets of OMLs 60 to 63. In the six months ended June 30, 2015 crude oil sales were $190.0 million, NGLs $7.8 million and natural gas $58.0 million, as compared to the sole product of crude oil sales of $67.4 million in the same period of 2014. Additional revenues consisted of $6.0 million in power generation sales at the Kwale-Okpai IPP and $2.5 million in oil transportation tariffs and other revenues that were earned during the first half of 2015.

Pricing

The Corporation's financial results are significantly influenced by fluctuations in global crude oil commodity prices. The following table shows select world market benchmark prices that directly affects OER's pricing and the average selling prices received by the Corporation:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Brent UK average oil price ($/bbl)	63.52	109.76	59.31	108.82
Average selling price:				
Crude oil ($/bbl)	66.81	106.22	62.98	108.79
NGLs ($/boe)	12.09	-	11.62	-
Natural gas ($/mcf)	1.98	-	2.11	-
Weighted average selling price ($/boe)	28.54	106.22	30.88	108.79

The Dated Brent oil benchmark price is a benchmark for the price received by the Corporation for its Nigerian crude oil production. The Corporation's gross sales price for crude oil decreased 37% to $66.81/bbl in the second quarter of 2015 from $106.22/bbl in the second quarter of 2014, as compared to a 42% decrease of Dated Brent oil price to $63.52/bbl from $109.76/bbl in the comparable prior year quarter. In the first half of 2015, OER's average crude oil selling price decreased 42% to $62.98/bbl from $108.79/bbl in the first half of 2014, as compared to the Dated Brent oil benchmark decreasing 45% to $59.31/bbl from $108.82/bbl in the same period of 2014. The difference is primarily a result of the higher prices realized from quality differentials on crude oil from OMLs 60 to 63 as compared to Ebendo and OML 125, combined with the significant weighting of the Corporation's production from OMLs 60 to 63.

The Corporation has economic hedges through the use of financial commodity contracts on crude oil that represented approximately 47% of second quarter 2015 crude oil production. The economic hedges reduce the Corporation's exposure to fluctuations in crude oil prices and the associated financial effect. The gains and losses on financial commodity contracts are recorded separately in net gains and losses on financial instruments (as described below).

Natural gas pricing for OER is primarily influenced by contracts and local conditions and therefore is not directly comparable to a recognized world benchmark for natural gas prices. OMLs 60 to 63 are where the majority of the Corporation's natural gas production originates, with approximately 80% of that production being committed to a long-term liquefied natural gas ("LNG") facility with pricing based on the end-use LNG sales product. The remaining production is sold at under arrangements with pricing based on a combination of local market prices and inflation-adjusted prices. Natural gas and NGLs represented 29% of OER's total oil and gas sales in the second quarter of 2015.

Production

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Crude oil (bbls/day)	20,769	4,549	20,633	4,540
NGLs (boe/day)	3,664	-	3,729	-
Natural Gas (mcf/day)	194,904	-	190,804	-
Total (boe/day)	56,917	4,549	56,163	4,540

In the second quarter of 2015, the Corporation's average production was 56,917 boe/day, consisting of 20,769 bbls/day of crude oil, 3,664 boe/day of NGLs and 194,904 mcf/day (32,484 boe/day) of natural gas. Increases in crude oil production were predominantly the result of additional production from OMLs 60 to 63 that were acquired on July 30, 2014. In addition, Ebendo increased production by 51% from 871 bbls/day to 1,313 bbl/day and OML 125 decreased in production by 20% from 3,678 bbls/day

from 2,932 bbls/day between the second quarters of 2014 and 2015, respectively. Qua Ibo achieved its first full quarter of production in the second quarter of 2015, recognizing approximately 1,100 bbls/day of crude oil.

During the first half of 2015, OER's average production was 56,163 boe/day, consisting of 20,633 bbls/day of crude oil, 3,729 boe/day of NGLs and 190,904 mcf/day (31,801 boe/day) of natural gas. The significant increase was a result of the new production to OER from OMLs 60 to 63, along with an increase at Ebendo, new production at Qua Ibo, partially offset by a decrease at OML 125.

Ebocha Fire and Tebidaba-Clough Creek Line Fire

Two unfortunate operational incidents occurred at facilities owned by the Nigerian Agip Oil Company Joint Venture ("NAOC JV") which is operated by Nigerian Agip Oil Company ("NAOC"). The Corporation owns 20% of the NAOC JV. On June 28th, 2015 there was a fire involving crude storage tanks. The fire was successfully extinguished with no injuries, fatalities, or environmental spill. All production in the Northern land area was initially shut-in (approximately 20,000 bbl/day net to OER). However, production is gradually being restored, and a significant portion of the shut-in production has been recovered. Restoration of oil flow through alternative routes is currently being explored and may be executed upon completion of a proper risk assessment. As of the date of this MD&A, approximately 1,400 bbl/day, net to OER, remains shut in as a result of the incident. The Corporation estimates its share of repairs at $6.7 million. Investigations are ongoing to determine the extent of damage, cause of the incident, cost of repairs, and likelihood of insurance coverage, all of which are unknown at this time.

On July 9, 2015, a fire occurred during the inspection and repair of a crude theft point on Tebidaba-Clough Creek Line, an oil pipeline in Nigeria's onshore Niger Delta. The incident resulted in the unfortunate death of 14 members of the contractor's inspection and repair team. The fire occurred away from the repair point and pipeline, igniting some of the spilled hydrocarbon. Investigations into the immediate and remote causes of the fire are on-going by the Operator. The extent of the damage is currently unknown. Production has been diverted to other pipelines and the Corporation does not expect the incident to have a significant impact on the delivery of crude oil to points of sale.

Crude oil losses (Ebendo)

Production from Ebendo is transported through the newly constructed Umugini pipeline and a pipeline operated by Nigerian Agip Oil Company Limited. These pipelines have experienced a significant amount of crude oil losses through crude oil thefts and pipeline sabotage. In the second quarter of 2015, pipeline and export facility losses based on managements' estimate were 26,230 bbls or 18% of total crude oil deliveries from Ebendo, as compared to losses of 26,994 bbls or 26% in the second quarter of 2014. Gross crude oil deliveries from OER into the export pipeline from Ebendo in the second quarter were 145,740 bbls, before pipeline losses. The Corporation estimated that second quarter 2015 crude oil revenue losses were $1.5 million from crude oil thefts and pipeline sabotage, as compared to $3.2 million in the same quarter of 2014.

Production expenses

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Production expenses	51,256	7,992	116,111	15,558
$/boe	9.90	19.31	11.42	18.93

Production expenses consist of direct operating expenditures relating to lifting, handling, transportation, production maintenance and operators' general and administrative costs.

During the second quarter of 2015 production expenses increased $43.3 million to $51.3 million from $8.0 million in the second quarter of 2014. In the first half of 2015 production expenses were $116.1 million, which was an increase of $100.6 million over $15.6 million incurred in the same period of 2014. The increase between the 2015 and 2014 periods was primarily related to the additional production expenses from OMLs 60 to 63 that were purchased on July 30, 2014.

On a per boe basis, production expenses improved to $9.90/boe in the second quarter of 2015 from $19.31/boe in the same quarter of 2014. During the six months ended June 30, 2015 production expenses improved to $11.42/boe from $18.93/boe in the first half of 2014. The decrease in production expenses on a per boe basis was the result of the addition of OMLs 60 to 63 that has lower average production costs, combined with increased production at Ebendo, which was partly offset by higher operating costs with decreased production at OML 125, as compared to the same period of 2014.

Operating netbacks

The Corporation's operating netbacks have been calculated by taking balances from the interim consolidated financial statements' note 14 and the interim consolidated statement of comprehensive loss. Operating netbacks as presented below may not be comparable to similar measures presented by other companies, as there is no standardized measure.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Crude oil	78,285	32,351	189,967	67,361
NGLs	4,032	-	7,845	-
Natural gas	27,963	-	57,998	-
Total oil and gas sales	110,280	32,351	255,810	67,361
Less: royalties	(23,061)	(2,561)	(41,600)	(5,901)
Oil and gas sales, net of royalties	87,219	29,790	214,210	61,460
Production expenses	(51,256)	(7,992)	(116,111)	(15,558)
Operating netback	35,963	21,798	98,099	45,902
$/boe				
Total oil and gas sales[1]	28.54	106.22	30.88	108.79
Royalties[1]	(5.03)	(6.19)	(4.62)	(7.18)
Production expenses	(9.90)	(19.31)	(11.42)	(18.93)
Operating netback	13.61	80.72	14.84	82.68

1 Oil and gas sales/boe is calculated from volumes sold during the period; royalties/boe is calculated based on volumes subject to royalties.

During the second quarter of 2015 the operating netback was $13.61/boe as compared to $80.72/boe in the same quarter of 2014. The decrease in the operating netback on a dollar per boe basis was primarily the result of the sales mixture change from the addition of natural gas and NGLs at OMLs 60 to 63. In the second quarter of 2015 production volumes were 36% crude oil and 64% natural gas and NGLs, as compared to 100% crude oil in 2014. The combination of the 37% decrease in OER's crude oil selling price and the addition of the lower priced natural gas to the sales mixture further decreased the Corporation's weighted average selling price of oil and gas products. This was partially offset by production costs in the second quarter of 2015 decreasing to $9.90/boe from $19.31/boe in the same quarter of 2014 and royalties decreasing to $5.03/boe from $6.19/boe in the second quarter of 2014.

The operating netback in the six months ended June 30, 2015 was $14.84/boe, as compared to $82.68/boe in the same period of 2014. The decrease in the operating netback from between 2014 and 2015 is mainly a result of the sales mixture change from the addition of natural gas and NGLs at OMLs 60 to 63, as mentioned above. Offsetting the decrease in the netback in the first half of 2015 was the decrease in royalties rates associated with natural gas and by efficiencies gained from the larger scale of operations that decreased the production expenses, all on a per boe basis.

The Corporation continues to focus on improving their operating netback by concentrating on crude oil development and decreasing operating costs, on a per boe basis, through field and facility optimizations to generate greater cash flows from operations.

Depletion, depreciation and amortization

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Depletion, depreciation and amortization	32,842	11,444	62,387	21,444
$/boe	6.34	27.64	6.14	26.09

In the second quarter of 2015, DD&A charges increased to $32.8 million compared to $11.4 million in the same quarter of 2014. The Corporation recognized $62.4 million in DD&A during the six months ended June 30, 2015 as compared to $21.4 million in the first half of 2014. The $21.4 million and $40.9 million increases during the three and six months ended June 30, 2015, respectively, over their corresponding periods of 2014 were mainly the result of the increase in the depletable PP&E asset base from the purchase of OMLs 60 to 63 and the associated production realized at OMLs 60 to 63. On a per boe basis DD&A decreased significantly as a result of the lower depletion rates from the longer life production at OMLs 60 to 63.

Impairment of assets

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Impairment of assets	6,679	-	6,679	-

On June 28th, 2015 there was a fire at the Ebocha Oil Centre in Rivers State, Nigeria (described above). As a result of the incident, impairment charges of $6.7 million was recognized relating to the Corporation's share of the infrastructure and facilities damaged. As the net book value of the specific assets damaged in the fire was not available and the nature and extent of the damage is still

unknown, the $6.7 million impairment charge was based on an estimate of the replacement value of the assets damaged; actual replacement costs may vary from this estimate. Management determined that there was no indication of impairment of the cash generating unit in which the incident occurred; only the specific assets damaged were derecognized/impaired.

G&A costs

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
General and administrative costs	16,754	13,389	35,217	18,983
G&A per $/boe	3.23	32.34	3.46	23.10
Acquisition costs	-	22,763	-	22,763

During the second quarter of 2015 G&A costs were $16.8 million compared to $13.4 million in the second quarter of 2014. The $3.4 million increase is primarily due to increases in employee and administrative costs related to the larger oil and gas asset portfolio resulting from the acquisition of OMLs 60 to 63 and new exploration blocks. On a per boe basis G&A costs improved to $3.23/boe in the second quarter of 2015 from $32.34/boe in the same quarter of 2014, as a result of the significant increase in production relative to the increase in G&A costs.

G&A costs in the first half of 2015 were $35.2 million, an increase of $16.2 million from $19.0 million in the first half of 2014. The increase was the result of the significant increase in the scope of OER's operations as a result of the acquisition of OMLs 60 to 63 and new exploration blocks in the third quarter of 2014, as mentioned above. On a per boe basis the G&A costs improved to $3.46/boe from $23.10/boe in the first half of 2014.

During the three and six months ended June 30, 2014, $22.8 million was expensed in relation to in non-reoccurring acquisition costs to effect the COP Acquisition.

Net losses on financial instruments

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Realized net gains on financial commodity contracts from monthly settlements	2,407	-	24,580	-
Net fair value losses on financial commodity contracts	(30,180)	-	(57,884)	-
Losses on warrants	-	(38,802)	-	(47,202)
Gains on conversion feature on borrowings	-	(69,811)	-	(68,172)
Net losses on derivative financial instruments	(27,773)	(108,613)	(33,304)	(115,374)

During the second quarter of 2015 the Corporation recognized $27.8 million in net losses on financial instruments as a result of net fair value losses on financial commodity contracts of $30.2 million and realized net gains of $2.4 million from the monthly settlements of financial commodity contracts. The net loss of $108.6 million in the second quarter of 2014 was the result of fair value losses on warrants and losses on conversion feature on borrowings that were both settled in 2014.

In the six months ended June 30, 2015 net losses on derivative financial instruments were $33.3 million, as compared to a $115.4 million loss recognized in the same period of 2014. The loss in the first half of 2015 was the result of realized financial commodity contract gains of $24.6 million being offset by $57.9 million in net fair value losses on financial commodity contracts. Included in the $57.9 million net fair value losses on financial commodity contracts is a loss of $34.9 million from the early settlement and reset arrangements (discussed below) and $23.0 million of net unrealized gains on financial commodity contracts. The prior period included a fair value loss of $68.2 million on the Oando PLC loan conversion option embedded derivative and a $47.2 million net fair value loss on warrants; both of those financial instruments were settled in 2014.

On February 6, 2015 the Corporation entered into an early settlement and reset arrangement with the Corporation's economic hedging counterparties to crystallize fair value gains of the financial commodity contracts, which resulted in the receipt of $226.2 million in net cash ($234.0 million including scheduled February cash settlements) that was used to reduce outstanding debt. The arrangement led to a resetting of the financial commodities contracts to 9,795 bbl/day of crude oil production at an average of $65 bbl until July 2017 and January 2019, respectively, with further upside available if certain prices targets were met. The financial commodity contracts represented 47% of the second quarter production rates of crude oil. The fair value of the financial commodity contracts as at June 30, 2015 was $15.8 million.

Net financing income (expenses)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Financing income	9,134	324	15,763	1,390
Financing expense	(23,899)	(5,735)	(62,878)	(41,391)
Net financing income (expense)	(14,765)	(5,411)	(47,115)	(40,001)

During the second quarter of 2015, net financing expense was $14.8 million compared to a net financing expense of $5.4 million in the second quarter of 2014. Financing income of $9.1 million included $5.6 million in interest income on a financing lease of natural gas facilities that the Corporation has interest and the remainder was earned on deposits held. Financing expense of $23.9 million includes $17.8 million in interest expense, $3.6 million of amortized transaction costs from borrowings, $2.4 million in unwinding of the decommissioning liabilities and $0.1 million in other interest costs.

Net financing expense in the six months ended June 30, 2015 increased to $47.1 million from $40.0 million in the comparative period. Financing income during the period totalled $15.8 million, consisting of $11.2 million on the financing lease of natural gas facilities and $4.6 million on deposits. Financing expense of $62.9 million includes $36.1 million in interest expense, $22.7 million of amortized transaction costs from borrowings and $4.1 million in unwinding of the decommissioning liabilities in the first half of 2015. Assuming stable interest rates the Corporation expects lower interest expenses going forward as result of paying down $251.6 million in borrowings during the first half of 2015.

Taxes

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Current tax (expense) recovery	(11,088)	(42)	(23,410)	315
Deferred income tax (expense) recovery	41,662	1,546	51,217	(6,344)

The Corporation incurred current income tax of $11.1 million in the second quarter of 2015, as compared to income taxes of $42 thousand in the same quarter of 2014. During the six months ended June 30, 2015 the Corporation incurred current incomes tax of $23.4 million as compared to a recovery of $315 thousand in the comparable period of 2014. The increase in current taxes is associated with the additional profits generated by OMLs 60 to 63 that accounted for $9.1 million and $20.8 million of the current income tax expense for the three and six months ended June 30, 2015, respectively.

Deferred income tax is a non-cash item relating to temporary differences between the accounting and tax basis of the Corporation's assets and liabilities and has no immediate impact on the Corporation's cash flows. In the second quarter of 2015 the deferred income tax recovery was $41.7 million compared to a deferred income tax recovery of $1.5 million in the same quarter of 2014. During the six months ended June 30, 2015 the deferred tax recovery was $51.2 million as compared to an expense of $6.3 million in the prior year period.

In 2014, an indemnification asset and offsetting tax liability of $62.4 million was recorded as a result of the COP Acquisition relating to uncertain tax provisions for which the Corporation was indemnified by the seller. In February 2015, the Corporation won an appeal related to a portion of the uncertain tax provisions which resulted in a $40.9 million reduction in taxes due. The appeal related to litigation that was initiated prior to December 31, 2014 and related to tax years from 2006 to 2011. The successful appeal provided additional clarity on the indemnification asset and uncertain tax provisions recorded. Accordingly, the Corporation reduced the indemnification asset and offsetting tax liability by $40.9 million. In the first quarter of 2015 $5.5 million of the uncertain tax provision subject to the indemnity above was settled. ConocoPhillips paid $5.5 million to the Corporation that the Corporation used to settle the tax liability.

In June 2015, the Corporation received approval for the pioneer status tax incentive for gas development in OMLs 60 to 63 with an effective date of January 1, 2014; use of the tax incentive is dependent on certain conditions including government agency and lender approval. Also, in May 2015 the Corporation received approval for pioneer status for the Qua Ibo field in OML 13 with an effective date of February 1, 2015.

Net income (loss) for the period

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net income (loss)	(29,255)	(137,668)	(50,351)	(177,549)

During the second quarter of 2015 the Corporation incurred a net loss of $29.3 million, which was $108.4 million lower than the net loss of $137.7 million in the second quarter of 2014. The quarterly decrease in the net loss was primarily a result of net losses on financial instruments being $80.8 million lower in 2015 and non-reoccurring acquisition expenses regarding the purchase of OMLs 60 to 63 of $22.8 million incurred in the second quarter of 2014, along with increased income of $16.5 million generated from the

operations and an increase in the net recovery of current tax and deferred tax of $29.1 million, which was partially offset by $21.4 million additional DD&A, an impairment of $6.7 million and additional net financing costs of $9.4 million.

The net loss during the six months ended June 30, 2015 was $50.4 million, which was a $127.2 million decrease from the $177.5 million loss recognized in the same period of 2014. The decrease in the net loss between the periods was primarily a result of net losses on financial instruments being $82.1 million lower in 2015 and non-reoccurring acquisition expenses regarding the purchase of OMLs 60 to 63 of $22.8 million in the first half of 2014, along with increased income of $59.5 million generated from the operations and an increase in the net recovery of current tax and deferred tax of $33.8 million, which was partially offset by $40.9 million additional DD&A, an impairment of $6.7 million, additional G&A of $16.2 million and increased net financing costs of $7.1 million.

In the second quarter of 2015 revenue was $90.2 million, an increase of $59.8 million over $30.4 million earned in the second quarter of 2014, primary as a result of the COP Acquisition producing assets of OMLs 60 to 63, which was partly offset by a reduction in revenues at the Ebendo and OML 125 resulting primarily from lower crude oil sales prices. Increased overall production led to greater production expenses and depletion expense, however these expenses improved on a per boe basis in the second quarter of 2015. Production expenses improved to $9.90/boe from $19.31/boe the second quarter of 2014 and depletion costs improved to $6.34/boe from $27.64/boe in the second quarter of 2014.

The G&A increase in the first half of 2015 of $16.2 million was related to additional employee and administrative costs accompanying the larger oil and gas asset portfolio from 2014 acquisitions. The net loss in the first half of 2015 also included a non-recurring loss of $34.9 million in net losses from financial instruments, as a result of the early settlement and reset arrangements, along with a non-recurring charge of $16.4 million in net financing expenses related to unamortized transaction costs as a result of loan repayments in the first half of 2015.

Funds from operations

Funds from operations is a non-GAAP measure. The following table reconciles funds from operations to cash flows from operating activities (a GAAP measure) by adjusting for proceeds from early hedge settlements and changes in non-cash working capital.

	Six months ended June 30,	
	2015	2014
Cash flows from operating activities	334,883	(11,220)
Proceeds from early hedge settlement	(226,220)	-
Net changes in working capital	(35,485)	19,728
Funds from operations	73,178	8,508

During the six months ended June 30, 2015 funds from operations increased $64.7 million to $73.2 million from $8.5 million incurred the same period of 2014. The increase in funds from operations in the periods of comparison was primarily a result of the new production from OMLs 60 to 63, along with new production OML 13 and increased revenues at Ebendo through production increases that more the offset lower crude oil prices, all of which was partially offset by increased G&A costs and decreased revenues at OML 125 from lower crude oil prices.

The addition of OMLs 60 to 63 added $23.5 million and $69.2 million in funds from operations during the three and six months ended June 30, 2015, respectively. The damage from the fire at the Ebocha facility and the reduction in pipeline flow capacity will have a negative effect on OER's funds from operations until the Ebocha facility is repaired (refer to discussion of Ebocha fire above).

Capital expenditures

	Six months ended June 30,	
	2015	2014
Exploration expenditures	6,771	7,012
Development expenditures	48,306	50,491
Qua Ibo expenditures	1,501	9,402
Other PP&E	353	-
Capital expenditures, net	56,931	66,905

In the first half of 2015, the Corporation spent $56.9 million on the development of oil and gas assets and exploration and evaluation activities, as compared to $66.9 million in the first half of 2014.

Historically, as a non-operator the Corporation has experienced significant variability in actual costs incurred and timing of expenditures, as compared to the operator's original project planning and budgeted amounts. The differences are primarily a result of the availability of services, long lead times in ordering certain oil and gas equipment and other local conditions that can lead to significant variances in project budgeting and timing. Failure to maintain adequate capital expenditures for the development of oil and gas assets could have a material impact on production, revenue, and future cash flows.

Summary of second quarter capital expenditures

During the second quarter of 2015 the Corporation spent $19.1 million on the development of oil and gas assets and exploration and evaluation activities, as compared to $24.8 million in the same quarter of 2014. Expenditures in the quarter included $12.7 million at OML 125 on gathering and transportation infrastructure enhancements and facility maintenance. Spending of $5.0 million at OMLs 60 to 63 included completions, geophysical exploration studies and capital maintenance. In addition $1.4 million was expended on other capital expenditures.

The following provides a summary of 2015 focus area capital expenditures and compares the budgeted expenditures to actual spending to date.

	Actual - Six months ended June 30, 2015	Full Year Budget 2015
OMLs 60 to 63	25,761	59,680
Qua Ibo (in OML 13)	1,501	550
Ebendo (in OML 56)	1,418	7,650
OML 125	25,458	67,130
Other assets, net	2,793	3,670
Capital expenditures, net	56,931	138,680

OMLs 60 to 63

During the six months ended June 30, 2015 capital expenditures on OMLs 60 to 63 totalled $25.8 million. Capital expenditures during the period included $11.5 million spent on development drilling and completion activities in the Ogbainbiri Deep 4 well, $11.8 million was spent on pipeline and facility upgrades and $2.5 million was spent on geophysical exploration studies.

In 2015, the Corporation estimates that $35.6 million will be expended on crude oil related projects and $24.1 million on gas projects in the OMLs 60 to 63 areas. The anticipated crude oil development expenditures include significant investment in environmental and safety projects, new development drilling, and completions and recompletions of previously drilled wells. Planned natural gas projects consist of drilling and completing new wells, along with enhancements to natural gas facilities and pipelines.

Qua Ibo

In the first half of 2015, the Corporation incurred capital expenditures of $1.5 million on pipeline and crude oil facility costs to facilitate the new production from the Qua Ibo field that commenced production late February 2015.

The Corporation realized its first sales from production at Qua Ibo in the second quarter of 2015. Throughout 2015, the Corporation has estimated $0.6 million in capital expenditures for facility enhancements.

Ebendo

During the six months ended June 30, 2015, the Corporation incurred $1.4 million in capital expenditures at Ebendo, which included the pipeline repairs and maintenance and drilling site preparation costs.

Throughout 2015, the Corporation has estimated $7.7 million in capital expenditures for facility and pipeline overhauls and enhancements.

OML 125

The Corporation incurred $25.5 million of capital expenditures during the first half of 2015 at OML 125 related to gathering and transportation infrastructure enhancements and facility maintenance. The enhancements included $20.1 million spent on Abo phase 3 gathering and transportation construction, $2.4 million on well recompletion costs, $2.1 million on its floating production storage and offloading vessel ("FPSO") on capital maintenance, and $0.9 million on capital maintenance projects.

In 2015, the Corporations has estimated $67.1 million in capital expenditures on the OML 125 Asset. The planned expenditures include gathering system construction projects, drilling and completion of ABO 12 Upper and ABO 13, along with safety projects and extending the life of the FPSO. As at June 30, 2015, the Corporation has been advanced $76.8 million from the operator of OML 125; the arrangement with the operator of OML 125, which is in-line with the joint operating agreement, allows the Corporation to defer the payment of cash calls until revenue from OML 125 is realized.

Other assets

Other asset capital expenditures include capital expenditures on OML 131, OML 134 and EEL. During the six months ended June 30, 2015 the Corporation spent $2.8 million, respectively, on preliminary geological studies and other equipment during the period. Throughout 2015, the Corporation estimates $3.7 million of capital expenditures will be incurred on other projects to assess the geological and geophysical aspects of the project areas, along with the environmental impacts.

Summary of Selected Quarterly Results

The table below summarizes selected financial and operational information for the last eight quarters. The Corporation's quarterly results have been impacted primarily by acquisitions, fluctuating commodity prices, asset impairments, gains and losses on financial instruments, and borrowing activities.

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Production (boe)	5,179,383	4,985,944	5,034,358	3,248,158	413,984	408,497	406,029	363,032
Total revenue	90,240	132,415	174,042	184,777	30,440	32,163	23,976	37,461
Net Income (loss) for the period	(29,255)	(21,096)	(199,595)	89,541	(137,668)	(39,881)	(41,008)	11,645
Earnings per share	(0.04)	(0.03)	(0.40)	0.12	(0.24)	(0.14)	(0.32)	0.12
Diluted earnings per share	(0.04)	(0.03)	(0.40)	0.12	(0.24)	(0.14)	(0.32)	0.12
Capital expenditures	19,127	37,804	41,206	52,910	24,355	42,550	45,573	29,684
Total assets	2,922,598	2,971,858	3,242,791	3,693,880	1,662,142	1,689,937	1,299,422	1,223,808
Total non-current liabilities	1,201,823	1,033,688	1,088,996	1,523,019	245,925	274,812	275,195	206,150

Liquidity and Capital Resources

Working capital deficiency

As at June 30, 2015, the Corporation had a working capital deficiency of $505.5 million (December 31, 2014 – $567.2 million) and an accumulated deficit of $687.9 million (December 31, 2014 – $638.1 million). In addition to its on-going working capital requirements, the Corporation must secure sufficient funding to fund ongoing operations, repay or refinance at least $157.8 million in current borrowings, and meet other commitments which include interest payments, purchase commitments, and budgeted capital expenditures (refer to payments due by period below). The Corporation has incurred significant levels of debt financing to finance on-going operations and acquisitions. Furthermore, the decline in global oil prices in 2014 and into 2015 has reduced cash flows from operations. Global oil prices could remain at current low levels for the remainder of 2015 and possibly longer, further impacting revenues and operating cash flows throughout 2015 and the ability of the Corporation to repay amounts due and its various debt facilities. These circumstances lend significant doubt as to the ability of the Corporation to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In February 2015, the Corporation entered into early settlement and reset arrangements with hedging counterparties which resulted in the receipt of $226.2 million in net cash ($234.0 million including scheduled February cash settlements) which was used to repay existing debt obligations. As a result of the early settlement and reset arrangements, the Corporation has reduced short-term principal and interest payments. In June 2015, the Corporation received consent from the lenders on the $450 million loan to waive the current ratio requirement for the periods ending June 30, 2015, December 31, 2015, and June 30, 2016. Also, as at June 30, 2015, the Corporation has been advanced $76.8 million from the operator of OML 125; the arrangement with the operator of OML 125, which is in-line with the joint operating agreement, allows the Corporation to defer the payment of cash calls until revenue from OML 125 is realized. Finally, after June 30, 2015 the Corporation extended the repayment date on the $100 million subordinated debt facility and is negotiating an increase to the capacity of the $450 million senior secured facility. Despite these actions, requirements to maintain cash balances with the lenders and to repay principal with excess cash from oil and gas sales (albeit at lower levels) remain. Furthermore, resetting the hedges has reduced cash flow as they have been reset at lower levels than the previous hedges and limits the Corporation's ability to fully benefit from increased oil prices until the price of oil exceeds approximately $75/bbl (the effect of the hedges is discussed in greater detail below).

These undertakings are not sufficient in and of themselves to enable the Corporation to fund all aspects of its operations and, accordingly, management is pursuing other financing alternatives to fund the Corporation's commitments and operations so it can continue as a going concern. Management plans to secure the necessary financing through the issue of new equity or debt instruments. Nevertheless, there is no assurance that these initiatives will be successful. The Corporation's ability to continue as a going concern is dependent upon its ability to fund the repayment of existing borrowings, secure additional financing and generate positive cash flows from operations.

Sources of funding

The table below provides a summary of cash flow from operating, financing, and investing activities for the six months ended June 30, 2015 and 2014.

	June 30, 2015	June 30, 2014
Cash flow from (used in):		
Operating activities	334,883	(11,220)
Financing activities	(285,875)	374,594
Investing activities	(56,607)	(166,890)
Net increase (decrease)	(7,599)	196,484

Cash flow from operating activities

In the first half of 2015 cash flow from operating activities were $334.9 million compared to negative $11.2 million in the prior year's quarter. The increase in cash flow was primarily a result of the proceeds from early hedge settlement that resulted in a cash inflow of $226.2 million, along with of new production from OMLs 60 to 63, increased revenues through greater production at Ebendo and Qua Ibo realizing its first revenues in 2015, which was offset by decreased revenue at OML 125 from lower crude oil prices and an increase in G&A expenses as a result of the increased scope of OER's business operations. The Corporation's cash flows from operations are highly dependent on global crude oil pricing and to a lesser degree local natural gas spot pricing, all in USD. The Corporation attempts to mitigate some of the pricing risk on cash flows from operating activities through financial commodity contracts and entering into long-term gas pricing contracts.

Cash flow from financing activities

In the six months ended June 30, 2015 cash flow from financing activities was negative $285.9 million as compared to $374.6 million in the same period of 2014. In the first quarter of 2015 the Corporation settled a financial commodities contract and realized monthly settlements totalling $239.2 million. The settlement amount received and available cash was used to repay $238.1 million of debt in addition to scheduled loan repayments, thereby decreasing future interest payments on borrowings. A summary of borrowing activities in 2015 is provided below.

Cash flow used in investing activities

In 2015 cash flow used in investing activities was $56.6 million, as compared to $166.9 million in the comparative period of 2014. The $56.6 million cash used in investing activities was driven primarily by $56.9 million in net asset additions offset by $0.3 million related to working capital management activities.

Sources of funding

To assist the Corporation in generating sufficient cash to execute its business plan the Corporation will utilize cash from producing assets, cash from financial commodity hedges, and debt and equity financing (subject to market conditions and financing being available on terms acceptable to the Corporation). As a result of the early settlement and reset arrangements (described below), the Corporation has reduced short-term principal and interest payments and, coupled with favourable hydrocarbon reserve revisions in 2015, has increased its borrowing capacity.

Borrowings

The table below summarizes borrowings outstanding at June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
$450 Million Senior Secured Facility	209,172	389,848
$350 Million Corporate Finance Loan Facility	241,765	319,045
$100 Million Subordinated Debt Facility	99,109	92,713
	550,046	801,606
Less: Borrowings, current	(157,822)	(551,480)
Borrowings, non-current	392,224	250,126

The carrying amount of all the Corporation's borrowings are denominated in USD. Borrowings held at June 30, 2015 are all non-revolving facilities.

In the six months ended June 30, 2015, the Corporation used proceeds from early settlement and reset arrangements on financial commodity contracts and available cash to repay $238.1 million of borrowings in addition to scheduled loan repayments; $187.3 million of the $450 million loan was repaid and $50.8 million of the $350 million loan was repaid. During the three and six months

ended June 30, 2015, the Corporation recognized $21.6 million and $58.8 million, respectively, of interest expense. Included in interest expense for the six months ended June 30, 2015 was a charge of $22.7 million related to the amortization of transaction costs.

At December 31, 2014, the Corporation was required to calculate a current ratio covenant on the $450 million loan which required the ratio to be not less than 1.1. The current ratio calculated by the Corporation was 0.7. After December 31, 2014 the Corporation received a waiver of this covenant, however, because the waiver was not received before December 31, 2014, the entire balance of the $450 million loan as at December 31, 2014, was classified as a current liability. In June 2015, the Corporation received consent from the lenders on the $450 million loan to waive the current ratio requirement for the periods ending June 30, 2015, December 31, 2015, and June 30, 2016. Furthermore, the Corporation was in compliance will all other loan covenants. As a result, as at June 30, 2015, the current and long-term portion of the loans are classified according to their maturity as set out by loan repayment schedules.

The fair value of current and non-current borrowings equals their carrying amount, as the impact of discounting is not significant.

In July 2015, the Corporation extended the repayment date on the $100 million subordinated debt facility by 90 days to October 8, 2015. The letter of credit from Oando PLC, which secured the loan, was also extended by 90 days. An extension fee of 0.5% was incurred. The Corporation is currently negotiating an increase to the capacity of the $450 million senior secured facility which, if successful, will be used to repay the $100 million subordinated debt.

Debt covenants

The loan facilities have specific covenants that if breached could have an adverse effect on the Corporation's liquidity and ability to continue as a going concern. The $450 million loan requires an interest coverage ratio (EBITDA/finance charges) of 4 or greater, a leverage ratio (net debt/EBITDA) of 3 or less, and a current ratio (current assets/current liabilities) of not less than 1.1. The $350 million loan requires a debt service coverage ratio of not less than 1.3, a loan life coverage ratio of not less than 1.4 times, and a field coverage ratio of not less than 1.4. In June 2015, the Corporation received consent from the lenders of its $450 million loan to waive the current ratio requirement for the periods ending June 30, 2015, December 31, 2015, and June 30, 2016. At June 30, 2015 the Corporation was in compliance will all other loan covenants. As a result, the current and long-term portion of the loans have been classified according to their maturity as set out by loan repayment schedules. See borrowings section comments above.

Payments due by period

The following table represents the contractual commitments of the Corporation as at June 30, 2015.

	Total	< than 1 year	1 to 3 years	4 to 5 years	After 5 years
Borrowings	703,291	208,544	257,483	237,264	-
Trade and other payables	401,112	401,112	-	-	-
Current tax payable	200,657	200,657	-	-	-
Due to Oando PLC	47,272	-	47,272	-	-
Purchase commitments	2,492	2,492	-	-	-
Budgeted Capital expenditure	81,750	81,750	-	-	-
	1,436,574	894,555	304,755	237,264	-

[1]Interest payable is expected to be $128 million over the remainder of the contractual term of the loan, calculated using interest rates applicable to borrowings at period end. Cash out flows associated with borrowings assume principal payments are paid in accordance with repayment schedules before cash sweeps – refer to Note 17 in the consolidated financial statements for year ended December 31, 2014.
[2]The capital expenditure budget represents the estimated level of required funding to support the planned growth, development and maintenance of the Corporation's interest in oil and gas fields.

The commitments for the next five years are expected to be funded from cash flow from operations of the Corporation, as well as debt and equity financing from external parties.

Risks with financial instruments

The Corporation is exposed to foreign exchange risk, price risk, and interest rate risk. The Corporation's exposure to foreign exchange risks from financial instruments would not have significant impact on income before tax. The Corporation is exposed to price risk associated with financial commodity hedges and interest rate risk from variable rate borrowings. The table below provides a summary of the impact that changes in crude oil prices and interest rates on income before tax, with all other variables held constant, would have had during the three months ended June 30, 2015.

		Income / (Loss)	
Instrument	Sensitivity Range	Increase in Variable	Decrease in Variable
Financial commodity contracts	+/- $10 per barrel change in Brent crude oil price	(34,624)	54,513
Variable rate borrowings	+/- 1% change in Libor interest rate applied to debt	(1,408)	1,408

Financial commodity contracts

2015 Early Settlement and Reset Arrangement

Declining oil prices in 2014 had a negative impact on the liquidity of the Corporation and the value of the assets pledged as security against the $450 million loan and $350 million loan which Management believed could have had a negative impact on the borrowing base. Accordingly, in December 2014, the Corporation initiated a process to early settle and reset the hedges associated with the loans to take advantage of the significant hedge values derived from the decline in oil prices and repay a portion of the loans to preserve an appropriate borrowing base ratio.

On February 6, 2015, the Corporation entered into early settlement and reset arrangements with hedging counterparties which resulted in the receipt of $226.2 million in net cash ($234.0 million including scheduled February cash settlements). The funds received on settlement and available cash were used to repay $238.1 million of borrowings (refer to the borrowings section for further details). Furthermore, the Corporation reset the pricing on financial commodity contracts. Refer to the table below for a summary of the details of the financial commodity contracts in place as at June 30, 2015 as a result of these arrangements.

As a result of the early settlement and reset arrangements, the Corporation has reduced short-term principal and interest payments. Despite this, requirements to maintain cash balances with the lenders and to repay principal with excess cash from oil and gas sales (albeit at lower levels) remain. Furthermore, resetting the hedges has reduced cash flow as they have been reset at lower levels than the previous hedges and limits the Corporation's ability to benefit from increased oil prices until the price of oil exceeds approximately $75/bbl (the effect of the hedges is discussed in greater detail below).

2015 Economic hedges

The table below summarizes the nature of the economic hedges executed as required by the $450 million senior secured loan facility and $350 million corporate loan facility as at June 30, 2015.

Position	Remaining Term	Price/Unit [1]			Volume (bbl/d)	Fair Value June 30, 2015
		Fixed	Strike	Premium [2]		
Fixed sell, purchased call [3]	July 2015 to July 2017	$65.00	$75.00	-	5,333	8,337
Purchased put [3]	July 2015 to July 2017	-	$75.00	$10.00	2,667	4,169
Purchased put [4]	July 2015 to Jan 2019 [5]	-	$75.00 - $85.00	$11.50 -$14.83	1,795[6]	3,339
Total fair value					9,795	15,845

[1] *Based on the weighted average price/unit for the remainder of contract.*
[2] *Premiums are deferred and payable monthly and settled net of fixed and strike cash flows.*
[3] *Financial commodities contract associated with the $450 million loan.*
[4] *Financial commodities contract associated with the $350 million loan.*
[5] *Remaining term excludes February 2016 to January 2017.*
[6] *Average volume over the life of the contract.*

The effect of the financial commodities contract associated with the $450 million loan is to fix the price of oil that the Corporation receives, on the specific volumes at $65/bbl until the benchmark price of dated Brent crude oil reaches $75/bbl; when dated Brent crude oil price exceeds $75/bbl the Corporation will receive the incremental price above $75/bbl. The financial commodities contract associated with the $450 million loan account for 8,000 bbl/day.

The effect of the financial commodities contract associated with the $350 million loan is to fix the price of oil that the Corporation receives, on the specific volumes at an average price of $65/bbl until the benchmark price of dated Brent crude oil reaches the cap price (which ranges from $75/bbl to $85/bbl); when dated Brent crude oil price exceeds the cap price the Corporation will receive the incremental price above cap price. The financial commodities contract associated with the $350 million loan account for an average of 1,795 bbl/day

The fair value of the financial commodity contracts as at June 30, 2015 was $15.8 million. During the six months ended June 30, 2015, the Corporation recorded a net loss of $33.3 million on the financial commodity contracts, which consisted of unrealized losses of $57.9 million and realized gains of $24.6 million from monthly settlements.

Financial risk management

The Corporation's activities expose it to a number of financial risks including market risk (including foreign exchange risk, price risk and interest rate risk), credit risk, and liquidity risk. The Corporation manages market risk by entering into financial commodity contracts to hedge a portion of production and reduce the volatility of operating cash flows. The Corporation manages credit risk associated with customers by analyzing the credit risk for each customer before standard payment and delivery terms and conditions are offered. The Corporation manages liquidity risk through working capital and debt management activities. For further information regarding the risks that the Corporation faces and the financial risk management activities of the corporation, refer to note 12 in the June 30, 2015 interim consolidated financial statements.

Related party transactions

The ultimate parent of the Corporation is Oando PLC, incorporated in Nigeria. At June 30, 2015, Oando PLC owned 93.7% of the Corporation's share capital. There are other companies that are related to Oando PLC through common shareholdings or common directorships with Oando PLC The operations of the Corporation have historically been financed by Oando PLC and recognized as intercompany transactions. As at June 30, 2015, the Corporation had the following outstanding related party balances with Oando PLC:

	June 30, 2015	December 31, 2014
Accounts receivable from Oando PLC	97,367	94,006
Related party receivable	97,367	94,006

	June 30, 2015	December 31, 2014
Under lift payable to Oando PLC	47,272	47,272
Payable to Oando PLC (Equator loan)	11,686	11,098
Oando PLC (Payments on behalf of the Corporation)	4,313	50,679
Related party payables	63,271	109,049

During the three and six months ended June 30, 2015, the Corporation incurred $6.1 million and $13.5 million, respectively, under the Cooperation and Services Agreement with Oando PLC. As part of the costs incurred under the agreement, the Corporation incurred $2.0 million and $3.6 million in aviation costs during the three and six months ended June 30, 2015, respectively.

Outstanding Share Data

The table below summarizes outstanding share data as at June 30, 2015. There have been no changes to the outstanding share data between June 30, 2015 and the date of this MD&A, accept for the restricted share units which expired on July 24, 2015.

	June 30, 2015
Common shares	796,049,213
Options exercisable to acquire common shares	9,010,000
Performance share units [2]	3,126,295
Warrants to acquire common shares [1]	344,673,441
Restricted share units to acquire common shares [2]	1,333,333

[1] *Each entitles the holder to acquire one common share of OER at an exercise price of $1.80 USD until July 30, 2016.*
[2] *Each entitles the holder to acquire one common share of OER at no additional cost.*

On January 9, 2015, a total of 630,000 common shares were issued in exchange for 666,667 restricted share units to an officer of the Corporation which vested in 2013.

On May 4, 2015, the Corporation granted a total of 3,126,295 performance share units to certain employees. The grant value of the performance share units is CAD1.53 per unit. The PSUs are subject to a performance condition based on the ranking of OER's total shareholder return ("TSR") against a comparator group of other exploration and production companies who possess characteristics, such as size and exposure to Africa, similar to the Corporation. OER's TSR will be measured over a period of three financial years, beginning with the financial year in which the PSUs were granted. The vesting of the PSUs is also subject to an overriding discretion for the Compensation Committee to reduce (including to zero) or increase the level of vesting as it considers appropriate in the event that the Committee determines that OER's TSR performance is not reflective of OER's underlying financial performance. In addition, the Compensation Committee has the discretion to reduce (including to zero) the level of vesting of the PSUs in the event that the Committee determines that there has been a negative health, safety and/or environmental event.

On June 11, 2015 the Corporation granted 600,000 stock options to Directors of the Corporation with strike prices ranging from CAD1.24 to 1.77 per unit.

Off-balance-sheet arrangements

The Corporation has not entered into any off-balance sheet arrangements.

Internal controls over financial reporting and disclosure controls

Based on their evaluation as at June 30, 2015, OER's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Corporation in reports that are filed or submitted to Canadian authorities is recorded, processed, summarized and reported within the time periods specified in Canadian securities laws. In addition, as at June 30, 2015, there were no changes in the internal control over financial reporting that occurred since December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting. Management will continue to periodically evaluate the Corporation's disclosure controls and procedures and internal control over financial reporting and will make any modifications from time to time as deemed necessary.

Based on their inherent limitations, disclosure controls and procedures and internal control over financial reporting may not prevent or detect misstatements, and even those controls determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Advisory regarding forward looking statements

Certain information contained in management's discussion and analysis of the Corporation's financial condition and results of the Corporation's operations constitute forward-looking statements. This MD&A contains forward-looking statements. Management's assessment of future plans and operations, capital expenditures, methods of financing capital expenditures and the ability to fund financial liabilities and the impact on OER, future operating costs, future transportation costs, expected changes in royalty rates and interest rates may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation to; the ability to successfully integrate the acquired assets and derive the anticipated economic benefits therefrom; statements with respect to the Corporation's development potential and programs; the Corporation's ability to raise required capital or draw down on existing loans, the future price of crude oil, natural gas and NGLs; the continuing impact of the change of management; the estimation of crude oil, natural gas and NGLs reserves; conclusions of economic evaluation; the realization of reserve resource estimates; the timing and amount of estimated future production; costs of production; capital and operating expenditures; success of exploration activities; currency exchange rates; the impact of illegal bunkering and over lifting; potential and stability of foreign jurisdictions; government relations and regulation; and environmental risks. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is based on the opinions and estimates of management as of the date such statements are made. Estimates regarding the potential of the Corporation's properties in Nigeria are based on the Corporation's understanding of regional geology and neighbouring properties and the continued development of the regions. Capital and operating cost estimates are based on terms of the Corporation's agreements with its partners, regulatory authorities, and extensive research of the Corporation, proposed budgets and programs under the agreements, recent estimates of exploration costs and other factors that are set out herein. Production estimates are based on past experience and plans and production schedules that have been developed by personnel and independent consultants of the Corporation and its business partners. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Corporation to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks related to: unexpected events and delays during exploration, development and construction; revocation of government approvals and contracts; timing and availability of external financing on acceptable terms; actual results of exploration activities; changes in project parameters as plans continue to be refined; future prices of crude oil, natural gas and NGLs ; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes; risks inherent in foreign operations of the oil and gas industry. Although management of the Corporation has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Corporation's operations and financial results are included in documents on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website, or at the Corporation's website. Furthermore, the forward looking statements contained in this document are made as at the date of this document and the Corporation does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Corporate Information

Board of Directors
Omamofe Boyo [3]
Deputy Group CEO Oando PLC
Olapade Durotoye [2, 5]
CEO Oando Energy Resources
Philippe Laborde [1, 2, 3]
CEO Olaeum Energy
John Orange [3, 4, 5]
Independent Businessman
Ron Royal [1, 4, 5]
Independent Businessman
Adewale Tinubu
CEO Oando PLC
Bill Watson [1, 2, 4]
Independent Businessman

[1] Member of Audit Committee
[2] Member of Reserves Committee
[3] Member of Compensation Committee
[4] Corporate Governance
[5] Environmental, Health, Safety, Security and Quality

Officers
Olapade Durotoye
Chief Executive Officer
Yannis Korakakis
Chief Operating Officer
Deola Ogunsemi
Chief Financial Officer

Transfer Agent
TMX Equity Transfer Services

Reserve Engineers
DeGolyer and MacNaughton

Auditors
PriceWaterhouseCoopers LLP

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