



AFRICA ENERGY CORP.

Report to Shareholders

September 30, 2016

AFRICA ENERGY CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Amounts expressed in United States dollars unless otherwise indicated)

For the three and nine months ended September 30, 2016 and 2015

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Africa Energy Corp. and its subsidiaries (the "Company" or "Africa Energy") and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the Company's unaudited consolidated financial statements for the three and nine months ended September 30, 2016 and 2015 and should also be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2015 and 2014 and related notes thereto.

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

The effective date of this MD&A is November 15, 2016.

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

PROFILE AND STRATEGY

Africa Energy is a Canadian-based company whose common shares are traded on the TSX Venture Exchange under the symbol "AFE". The Company is an international oil and gas exploration and development company that holds a 90% participating interest in Block 2B, offshore Republic of South Africa. As at September 30, 2016, Africa Oil Corp. ("AOC") owned 32% of the issued and outstanding common shares of Africa Energy. Subsequent to the end of the quarter, the Company completed a non-brokered private placement which reduced AOC's ownership to 29%.

Early in 2015, the Company invoked a new corporate strategy to take advantage of the current downturn in oil prices and intends to aggressively pursue onshore and offshore upstream oil opportunities in Africa. Africa Energy has built a strong technical team which will be managed from a new office in Cape Town, South Africa. In line with this refocused effort, the Company changed its name to Africa Energy Corp. which was effective on March 12, 2015. In October, 2016, the Company acquired a 90% participating interest in an Exploration Right on Block 2B, offshore in the Republic of South Africa.

OPERATIONS UPDATE

Block 2B, Republic of South Africa

On October 21, 2016, the Company closed three transactions resulting in the Company acquiring a 90% participating interest and operatorship in Block 2B offshore the Republic of South Africa. A well drilled in Block 2B by South African state company Soekor in 1988 discovered and tested light oil from a Cretaceous sandstone section confirming that this rift basin is hydrocarbon-bearing. The Company's technical team has identified numerous prospects and potential drilling locations in Block 2B utilizing the previously acquired 3D seismic.

The following three transactions closed on October 21, 2016:

Afren plc

The Company paid \$1.0 million to Afren plc (in Administration) and certain of its subsidiaries, acquiring the subsidiary holding a 25% participating interest in Block 2B.

Thombo Petroleum Ltd.

The Company paid \$2.0 million and issued 14.8 million new common shares of the Company to acquire all of the shares of Thombo Petroleum Ltd., a privately held company operating and holding a 34.5% participating interest in Block 2B. The Company may be required to issue up to an additional 20 million common shares of Africa Energy and, at the option of the Company, to either pay and/or issue up to \$1.5 million in additional contingent cash and/or shares of Africa Energy, if certain milestones associated with the commercialization of Block 2B are achieved.

Crown Energy AB

The Company completed a farm-in agreement with a subsidiary of Crown Energy AB ("Crown") to acquire a 30.5% participating interest in Block 2B. The Company will reimburse Crown for up to US\$0.3 million of net back costs and will fund costs for Crown's remaining 10% participating interest associated with the drilling and testing of the next well in Block 2B.

Completion of the above three definitive agreements is subject to receipt of government approval.

OUTLOOK

The Company has recently taken the first step of its new corporate strategy by acquiring 90% of Block 2B in South Africa. The Company continues to identify, evaluate, and negotiate additional exploration and production opportunities. The Company's proven Cape Town-based technical team remains the driving force behind the identification and evaluation of the opportunities available within this current oil sector downturn. Management expects these initial transactions will be the first of a number of transactions to grow Africa Energy. An exploration driven strategy in Africa will deliver value to our shareholders as the world oil markets recover, and Africa Energy has the technical team and access to capital from supportive shareholders to deliver on this strategy.

FINANCING UPDATE

Subsequent to the end of the quarter, the Company completed a non-brokered private placement issuing 60 million common shares at a price of CAD\$0.25 per share for gross proceeds of CAD\$15 million, or approximately \$11.2 million USD equivalent. A finder's fee of approximately \$0.2 million was paid in cash. The common shares issued under the private placement are subject to a statutory hold period which will expire in March 2017.

SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share amounts)	30-Sep 2016	30-Jun 2016	31-Mar 2016	31-Dec 2015	30-Sep 2015	30-Jun 2015	31-Mar 2015	31-Dec 2014
Operating expenses (\$)	(1,048)	(1,223)	(1,189)	(1,172)	(692)	(531)	(657)	(90,994)
Foreign exchange gain (loss) (\$)	3	(3)	123	(53)	(102)	20	(16)	(9)
Net loss (\$)	(1,044)	(1,224)	(1,064)	(1,223)	(792)	(508)	(673)	(91,003)
Weighted average shares - Basic	244,377	244,377	244,377	130,586	129,335	129,335	97,967	96,849
Weighted average shares - Diluted	244,377	244,377	244,377	130,586	129,335	129,335	97,967	96,849
Basic loss per share (\$)	(0.00)	(0.01)	(0.00)	(0.01)	(0.01)	(0.00)	(0.01)	(0.94)
Diluted loss per share (\$)	(0.00)	(0.01)	(0.00)	(0.01)	(0.01)	(0.00)	(0.01)	(0.94)
Oil and gas expenditures (\$)	-	-	-	-	-	-	-	(113)

As the Company is in the exploration stage, no oil and gas revenue has been generated to date.

Operating expenses decreased for the first quarter of 2015 compared to fourth quarter of 2014. This decrease is due to the impairment charge that was booked in the fourth quarter of 2014 related to the Company's PSAs in Puntland (Somalia). The Company began reducing its presence in Puntland (Somalia) early in 2015 and by mid-2015 had fully withdrawn from the Nugaal Block and Dharoor Block PSAs. Operating costs were relatively consistent from the first quarter of 2015 through to the third quarter of 2015. Operating costs increased for the fourth quarter of 2015 compared to the third quarter of 2015 due to an increase in transaction related professional fees incurred in the fourth quarter of 2015 as well as an increase in office and general costs mainly relating to technical software license fees and costs associated with the closure of the Bosaso (Puntland) office. The transaction related professional fees are a direct result of ongoing activity by the Company with respect to new ventures, including fees associated with the three South African transactions. Operating costs were relatively consistent from the fourth quarter of 2015 through to the third quarter of 2016.

Foreign exchange gains and losses incurred by the Company are the result of holding Canadian dollars and South African Rand which are used to fund a portion of the Company's operating expenses. The Company does not currently hedge its foreign currency exchange exposure.

RESULTS OF OPERATIONS

(thousands)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Salaries and benefits	\$ 577	\$ 341	\$ 1,696	\$ 663
Stock-based compensation	88	120	395	431
Travel	54	69	183	88
Management fees	32	60	105	386
Office and general	162	68	632	131
Depreciation	18	10	48	10
Professional fees	104	10	367	115
Stock exchange and filing fees	13	14	34	56
Operating expenses	\$ 1,048	\$ 692	\$ 3,460	\$ 1,880

Operating expenses increased \$0.4 million during the three months ended September 30, 2016 compared to the same period in 2015. The increase in salaries and benefit costs can be attributed to hiring a dedicated management team as well as technical exploration and administrative staff for the Company's new office in Cape Town, South Africa. Office and general costs increased due mainly to technical software license fees and the costs associated with running a new office in Cape Town, South Africa. The decrease in stock-based compensation can be attributed to the issuance of 1.4 million options during the third quarter of 2015 of which one-third vested immediately, compared to nil during the third quarter of 2016. The increase in professional fees is primarily due to expenses related to ongoing activity by the Company with respect to new ventures. The decrease in management fees charged to the Company can be attributed to revisions to the General Management and Services Agreement between AOC and the Company effective June 1, 2015 and February 1, 2016 to reflect hiring of a dedicated management team for the Company.

Operating expenses increased \$1.6 million during the nine months ended September 30, 2016 compared to the same period in 2015. The increase in salaries and benefit costs as well as travel costs can be attributed to hiring a dedicated management team as well as technical exploration and administrative staff for the Company's new office in Cape Town, South Africa. Office and general costs increased due mainly to technical software license fees and the costs associated with running a new office in Cape Town, South Africa. The increase in professional fees is primarily due to expenses related to ongoing activity by the Company with respect to new ventures. The decrease in management fees charged to the Company can be attributed to revisions to the General Management and Services Agreement between AOC and the Company effective June 1, 2015 and February 1, 2016 to reflect hiring of a dedicated management team for the Company.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2016, the Company had cash and working capital of \$3.8 million as compared to cash of \$7.0 million and working capital of \$6.7 million at December 31, 2015. The decrease in the Company's cash position and working capital are primarily due to the utilization of cash in order to progress the Company's new corporate strategy.

Subsequent to September 30, 2016, the Company completed a non-brokered private placement for proceeds of \$11.2 million significantly improving the Company's liquidity position. Partially offsetting the proceeds from the non-brokered private placement, the Company completed its acquisition of a 90% participating interest in Block 2B.

The Company's working capital position may not provide it with sufficient capital resources to meet additional exploration, appraisal and development expenditures. To finance its future acquisition, exploration, development and operating costs, Africa Energy may require financing from external sources, including issuance of new shares, issuance of debt or executing working interest farmout or disposition arrangements. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to Africa Energy.

STOCK-BASED COMPENSATION

The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations. Stock-based compensation for the three and nine months ended September 30, 2016 was \$0.09 million and \$0.4 million, respectively, compared to \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2015, respectively. The Company granted 7.3 million stock options to directors, officers, employees and consultants of the Company during the nine months ended September 30, 2016, compared to 6.3 million stock options granted during the nine months ended September 30, 2015, of which one-third vested immediately.

RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH AOC:

At September 30, 2016, Africa Oil Corp. ("AOC") owned 32% of the common shares of Africa Energy. Subsequent to September 30, 2016, the Company completed a non-brokered private placement, in which AOC participated, resulting in AOC's ownership in Africa Energy decreasing to 29%.

Under the terms of the General Management and Service Agreement between AOC and the Company for the provision of management and administrative services, AOC invoiced the Company \$0.1 million during the nine months ended September 30, 2016 (nine months ended September 30, 2015 – \$0.4 million). At September 30, 2016, the outstanding balance payable to AOC was \$0.01 million (at December 31, 2015 – \$ nil). The management fee charged to the Company by AOC is for the provision of management and administrative services and is intended to cover the cost of administrative expense and salary costs paid by AOC.

During the nine months ended September 30, 2016, AOC invoiced the Company \$0.1 million for reimbursable expenses paid by AOC on behalf of the Company (nine months ended September 30, 2015 - \$0.09 million). At September 30, 2016, the outstanding balance payable to AOC was \$0.06 million (at December 31, 2015 – \$0.09 million)

COMMITMENTS AND CONTINGENCIES

BLOCK 2B, REPUBLIC OF SOUTH AFRICA

Under the terms of the Block 2B Exploration Right, the Company and its partner are currently in the First Renewal Period which expires in March 2017. During the First Renewal Period, the Company and its partner are obligated to undertake the necessary technical work to determine the likely range of hydrocarbon volumes in the actual and potential reservoirs identified in the previous exploration period with a minimum gross expenditure of \$1.0 million.

Under the Thombo Share Purchase Agreement, the Company may be obligated to issue up to an additional 20 million common shares of Africa Energy and, at the option of the Company, to either pay and/or issue up to \$1.5 million in additional contingent cash and/or shares of Africa Energy, if certain milestones associated with the commercialization of Block 2B are achieved.

Under the Simbo Farmout Agreement, the Company is obligated to fund Crown's remaining 10% participating interest of costs associated with the drilling and testing of the next well in Block 2B.

PROPERTY LEASE CONTRACTS

The Company has committed to future minimum payments at September 30, 2016 under South African operating leases that includes the rental of housing and office space, including a proportionate share of operating costs as follows:

2016	26
2017	22
Total minimum payments	48

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 at September 30, 2016	244,377,135
Common shares issued upon completion of the acquisition of Thombo Petroleum Ltd.	14,800,000
Common shares issued upon completion of Private Placement	60,000,000
Outstanding share purchase options	15,479,500
Full dilution impact on common shares outstanding	334,656,635

OFF-BALANCE SHEET ARRANGEMENTS

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

RISK FACTORS

The Company is subject to various risks and uncertainties, including, but not limited to, those listed below. Refer to the Company's Annual Information Form dated February 26, 2016 on Sedar (www.sedar.com) for further risk factor disclosures.

FOREIGN CURRENCY EXCHANGE 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. Africa Energy had no forward exchange contracts in place as at or during the period ended September 30, 2016.

INTEREST RATE RISK

The Company does not have any current exposure to fluctuations in interest rates.

LIQUIDITY RISK

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

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

CREDIT RISK

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The majority of our credit exposure relates to amounts due from our joint venture partners. The risk of our joint venture partners defaulting on their obligations per their respective joint operating and farmout agreements is mitigated as there are contractual provisions allowing the Company to default joint venture partners who are non-performing and reacquire any previous farmed out working interests. The maximum exposure for the Company is equal to the sum of its cash and accounts receivable. As at September 30, 2016 the Company held \$0.3 million of cash in financial institution outside of Canada where there could be increased exposure to credit risk.

FORWARD LOOKING STATEMENTS

Certain statements in this document are “forward-looking statements”. Forward-looking statements are statements that are not historical fact and are generally identified by words such as “believes”, “anticipates”, “expects”, “estimates”, “pending”, “intends”, “plans”, “will” or similar words suggesting future outcomes. By their nature, forward-looking statements and information 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 and information. Risks and uncertainties include, 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.

The Company does not undertake to update or re-issue the forward-looking statements and information that may be contained herein, whether as a result of new information, future events or otherwise.

Any statements regarding the following are forward-looking statements:

- expected closing dates for the completion of proposed transactions;
- planned exploration activity including both expected drilling and geological and geophysical related activities;
- anticipated future financing requirements
- future crude oil, natural gas or chemical prices;
- future sources of funding for our capital program;
- availability of potential farmout partners;
- government or other regulatory consent for exploration, development, farmout or acquisition activities;
- future production levels;
- future capital expenditures and their allocation to exploration and development activities;
- future earnings;
- future asset acquisitions or dispositions;
- future debt levels;
- availability of committed credit facilities;
- possible commerciality;
- development plans or capacity expansions;
- future ability to execute dispositions of assets or businesses;
- future sources of liquidity, cash flows and their uses;
- future drilling of new wells;
- ultimate recoverability of current and long-term assets;
- ultimate recoverability of reserves or resources;
- expected finding and development costs;
- expected operating costs;
- 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 developed or will come on stream or reach expected operating capacity; 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.

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

- market prices for oil and gas and chemical products;
- our ability to explore, develop, produce and transport crude oil and natural gas to markets;
- ultimate effectiveness of design or design modification to facilities;
- the results of exploration and development drilling and related activities;
- volatility in energy trading markets;
- foreign-currency exchange rates;
- economic conditions in the countries and regions in which we carry on business;
- governmental actions including changes to taxes or royalties, changes in environmental and other laws and regulations;
- renegotiations of contracts;
- results of litigation, arbitration or regulatory proceedings; and
- political uncertainty, including actions by terrorists, insurgent or other groups, or other armed conflict, conflict between states.

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 our assessment of all information at that time. Although we believe that the expectations conveyed by the forward-looking statements are reasonable based on information available to us on the date such forward-looking statements were made, no assurances can be given as to future results, levels of activity and achievements.

Undue reliance should not be placed on the statements contained herein, which are made as of the date hereof and, except as required by law, we undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

AFRICA ENERGY CORP.

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

		September 30, 2016	December 31, 2015
ASSETS			
	Note		
Current assets			
Cash and cash equivalents		\$ 3,774	\$ 7,004
Accounts receivable		167	122
Prepaid expenses		242	146
		4,183	7,272
Long-term assets			
Property and equipment	3	121	106
		121	106
Total assets		\$ 4,304	\$ 7,378
LIABILITIES AND EQUITY ATTRIBUTABLE TO COMMON SHAREHOLDERS			
Current liabilities			
Accounts payable and accrued liabilities		\$ 338	\$ 462
Due to related party	7	74	87
		412	549
Total liabilities		412	549
Equity attributable to common shareholders			
Share capital	4	94,685	94,685
Contributed surplus	5	4,218	3,823
Deficit		(95,011)	(91,679)
Total equity attributable to common shareholders		3,892	6,829
Total liabilities and equity attributable to common shareholders		\$ 4,304	\$ 7,378
Commitments and contingencies	10		
Subsequent events	11		

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

Approved on behalf of the Board:

"IAN GIBBS"

IAN GIBBS, DIRECTOR

"ASHLEY HEPPENSTALL"

ASHLEY HEPPENSTALL, DIRECTOR

AFRICA ENERGY CORP.

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

		Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
	Note				
Operating expenses					
Salaries and benefits		\$ 577	\$ 341	\$ 1,696	\$ 663
Stock-based compensation	5	88	120	395	431
Travel		54	69	183	88
Management fees	7	32	60	105	386
Office and general		162	68	632	131
Depreciation	3	18	10	48	10
Professional fees		104	10	367	115
Stock exchange and filing fees		13	14	34	56
		1,048	692	3,460	1,880
Finance expense	6	-	102	-	98
Finance income	6	(4)	(2)	(128)	(5)
Net loss and comprehensive loss attributable to common shareholders		(1,044)	(792)	(3,332)	(1,973)
Net loss per share		8			
Basic		\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Diluted		\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weighted average number of shares outstanding for the purpose of calculating earnings per share		8			
Basic		244,377,135	129,335,469	244,377,135	118,994,082
Diluted		244,377,135	129,335,469	244,377,135	118,994,082

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

AFRICA ENERGY CORP.

Consolidated Statement of Equity Attributable to Common Shareholders
(Expressed in thousands of United States dollars)
(Unaudited)

		September 30, 2016	September 30, 2015
	Note		
Share capital:	4(b)		
Balance, beginning of the period		\$ 94,685	\$ 86,494
Private placement, net of issue costs		-	3,277
Balance, end of the period		94,685	89,771
Contributed surplus:			
Balance, beginning of the period		\$ 3,823	\$ 3,300
Stock-based compensation	5	395	431
Balance, end of the period		4,218	3,731
Deficit:			
Balance, beginning of the period		\$ (91,679)	\$ (88,483)
Net loss for the period		(3,332)	(1,973)
Balance, end of the period		(95,011)	(90,456)
Equity attributable to common shareholders		\$ 3,892	\$ 3,046

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

AFRICA ENERGY CORP.

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

		Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Cash flows provided by (used in):					
	Note				
Operations:					
Net loss for the period		\$ (1,044)	\$ (792)	\$ (3,332)	\$ (1,973)
Item not affecting cash:					
Stock-based compensation	5	88	120	395	431
Depreciation	3	18	10	48	10
Unrealized foreign exchange (gain)/loss		(3)	102	(123)	98
Changes in non-cash operating working capital	12	(237)	(26)	(253)	(97)
		(1,178)	(586)	(3,265)	(1,531)
Investing:					
Property and equipment expenditures	3	(3)	(60)	(63)	(102)
Changes in non-cash investing working capital	12	13	(105)	(12)	(391)
		10	(165)	(75)	(493)
Financing:					
Common shares issued, net of issuance costs	4(b)	-	-	-	3,277
Advances from related party	7	44	121	209	480
Payments to related party	7	(22)	(82)	(222)	(513)
		22	39	(13)	3,244
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency					
		3	(102)	123	(98)
Increase (decrease) in cash and cash equivalents		(1,143)	(814)	(3,230)	1,122
Cash and cash equivalents, beginning of the period		\$ 4,917	\$ 3,541	\$ 7,004	\$ 1,605
Cash and cash equivalents, end of the period		\$ 3,774	\$ 2,727	\$ 3,774	\$ 2,727
Supplementary information:					
Interest paid		Nil	Nil	Nil	Nil
Taxes paid		Nil	Nil	Nil	Nil

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

AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

(Unaudited)

1) Incorporation and nature of business:

Africa Energy Corp. (collectively with its subsidiaries, "Africa Energy" or the "Company") was incorporated under the Business Corporations Act (Alberta) on April 27, 2010 and is an international oil and gas exploration company based in Canada. The Company was continued into the Province of British Columbia under the Business Corporations Act (British Columbia) in 2011 following the acquisition from Africa Oil Corp. ("AOC") of all of the issued and outstanding shares of the subsidiaries holding AOC's interests in certain oil and gas projects, which have since been relinquished by the Company. The Company's registered address is Suite 2600, 1066 West Hastings Street, Vancouver, BC, V6C 3X1.

Africa Energy is an exploration stage enterprise that to date, has not found proved reserves. Early in 2015, the Company invoked a new corporate strategy to take advantage of the current downturn in oil prices and intends to aggressively pursue onshore and offshore upstream oil opportunities in Africa. In October 2016, the Company acquired a 90% participating interest in an Exploration Right on Block 2B, offshore in the Republic of South Africa. Oil and gas exploration, development and production activities in emerging markets are subject to significant uncertainties which may adversely affect the Company's operations. Uncertainties include, but are not limited to, the risk of war, terrorism, civil unrest, expropriation, nationalization or other title dispute challenges, renegotiation or nullification of existing or future concessions and contracts, the imposition of international sanctions, a change in crude oil or natural gas pricing policies, a change in taxation policies, and the imposition of currency controls, in addition to the risks associated with exploration activities. These uncertainties, all of which are beyond the Company's control, could have a material adverse effect on Africa Energy's business, prospects and results of operations. In addition, if legal disputes arise related to oil and gas concessions acquired by the Company, Africa Energy 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 Africa Energy has or may acquire an interest. The Company may require licenses or permits from various governmental authorities to carry out future exploration, development and production activities. There can be no assurance that Africa Energy will be able to obtain all necessary licenses and permits when required.

2) Basis of preparation:

a) Statement of compliance:

The Company prepares these condensed consolidated interim financial statements in accordance with Canadian generally accepted accounting principles, specifically International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). They are condensed as they do not include all the information required for full annual financial statements, and they should be read in conjunction with the consolidated financial statements for the year ended December 31, 2015.

The policies applied in these condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as at November 15, 2016, the date the Board of Directors approved the statements.

AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

(Unaudited)

b) 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 Company's consolidated financial statements for the year ended December 31, 2015. Those accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

c) Functional and presentation currency:

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

d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Significant estimates and judgment used in the preparation of these consolidated financial statements are described in the Company's consolidated financial statements for the year ended December 31, 2015.

3) Property and equipment:

		September 30, 2016		December 31, 2015
Cost, beginning of the period	\$	129	\$	-
Additions		63		129
Cost, end of the period		192		129
Accumulated depreciation, beginning of the period		(23)		-
Depreciation		(48)		(23)
Accumulated depreciation, end of the period		(71)		(23)
Net carrying amount, beginning of the period	\$	106	\$	-
Net carrying amount, end of the period	\$	121	\$	106

During the nine months ended September 30, 2016, the Company purchased property and equipment for its technical office, which is located in Cape Town, South Africa.

AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

(Unaudited)

4) Share capital:

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

b) Issued:

	September 30, 2016		December 31, 2015	
	Shares	Amount	Shares	Amount
Balance, beginning of the period	244,377,135	\$ 94,685	96,849,316	\$ 86,494
Private placement, net of issue costs	-	-	147,527,819	8,191
Balance, end of the period	244,377,135	\$ 94,685	244,377,135	\$ 94,685

During March 2015, the Company completed a non-brokered private placement issuing an aggregate of 32,486,153 shares at a price of CAD\$0.13 per share for gross proceeds of \$3.4 million. A finder's fee was paid in the amount of \$0.08 million in cash. The common shares issued under the private placement were subject to a statutory hold period which expired in July 2015.

During December 2015, the Company completed a non-brokered private placement issuing an aggregate of 115,041,666 common shares at a price of CAD \$0.06 per share for gross proceeds of \$5 million. A finder's fee was paid in the amount of \$0.04 million in cash. The common shares issued under the private placement are subject to a statutory hold period which expired on May 2016.

5) Share purchase options:

At the 2016 Annual General and Special Meeting, held on July 7, 2016, the Company's shareholders ratified and approved the Company's stock option plan (the "Plan"). The Plan provides that an aggregate number of common shares which may be reserved for issuance as incentive stock options shall not exceed 10% of the common shares outstanding, and that 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.

Share purchase options outstanding, are as follows:

	September 30, 2016		December 31, 2015	
	Number of options	Weighted average exercise price (CAD\$)	Number of options	Weighted average exercise price (CAD\$)
Outstanding, beginning of the period	8,399,500	0.19	4,882,000	0.33
Granted	7,310,000	0.12	6,312,500	0.16
Expired	(230,000)	0.18	(2,795,000)	0.36
Balance, end of the period	15,479,500	0.16	8,399,500	0.19

i) No stock options were exercised during the nine months ended September 30, 2016 or the year ended December 31, 2015.

AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

(Unaudited)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model. The fair value of each option granted during the nine months ended September 30, 2016 and the year ended December 31, 2015 were estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2016	2015
Number of options granted during the period	7,310,000	6,312,500
Fair value of options granted (CAD)	0.09	0.10
Risk-free interest rate (%)	0.54	0.51
Expected life (years)	3.00	3.00
Expected volatility (%)	121	136
Expected dividend yield	-	-

All options granted vest over a two-year period, of which one-third vest immediately, and expire three or five years after the grant date. The Company recognized \$0.09 million and 0.4 million in stock-based compensation expense for the three and nine months ended September 30, 2016, respectively (\$0.1 million and \$0.4 million for the three and nine months ended September 30, 2015, respectively).

The following table summarizes information regarding stock options outstanding at September 30, 2016:

Weighted Average Exercise price (CAD\$/share)	Number outstanding	Weighted average remaining contractual life in years
0.30	1,884,500	0.62
0.17	4,885,000	3.45
0.13	1,420,000	3.87
0.11	1,850,000	4.51
0.125	5,440,000	4.63
0.16	15,479,500	3.69

6) Finance income and expense:

Finance income and expense for the three and nine months ended September 30, 2016 and 2015 is comprised of the following:

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Interest and other income	\$ (1)	\$ (2)	\$ (5)	\$ (5)
Foreign exchange (gain)/loss	(3)	102	(123)	98
Finance income	\$ (4)	\$ (2)	\$ (128)	\$ (5)
Finance expense	-	102	-	98

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. Exchange gains or losses arising from translation are included in the statement of net loss and comprehensive loss.

AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

(Unaudited)

7) Related party transactions:

Transactions with AOC:

At September 30, 2016, Africa Oil Corp. ("AOC") owned 32% of the common shares of Africa Energy. Subsequent to September 30, 2016, the Company completed a non-brokered private placement, in which AOC participated, resulting in AOC's ownership in Africa Energy decreasing to 29%.

Under the terms of the General Management and Service Agreement between AOC and the Company for the provision of management and administrative services, AOC invoiced the Company \$0.1 million during the nine months ended September 30, 2016 (nine months ended September 30, 2015 – \$0.4 million). At September 30, 2016, the outstanding balance payable to AOC was \$0.01 million (at December 31, 2015 – \$ nil). The management fee charged to the Company by AOC is for the provision of management and administrative services and is intended to cover the cost of administrative expense and salary costs paid by AOC.

During the nine months ended September 30, 2016, AOC invoiced the Company \$0.1 million for reimbursable expenses paid by AOC on behalf of the Company (nine months ended September 30, 2015 - \$0.09 million). At September 30, 2016, the outstanding balance payable to AOC was \$0.06 million (at December 31, 2015 – \$0.09 million).

8) Net Loss Per Share:

Three months ended	September 30, 2016			September 30, 2015		
	Net loss	Number of shares	Per share amounts	Net loss	Number of shares	Per share amounts
Basic earnings per share						
Net loss attributable to common shareholders	\$ (1,044)	244,377,135	\$ (0.00)	\$ (792)	129,335,469	\$ (0.01)
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	\$ (1,044)	244,377,135	\$ (0.00)	\$ (792)	129,335,469	\$ (0.01)
Nine months ended	September 30, 2016			September 30, 2015		
	Earnings	Number of shares	Per share amounts	Earnings	Number of shares	Per share amounts
Basic earnings per share						
Net loss attributable to common shareholders	\$ (3,332)	244,377,135	\$ (0.01)	\$ (1,973)	118,994,082	\$ (0.02)
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	\$ (3,332)	244,377,135	\$ (0.01)	\$ (1,973)	118,994,082	\$ (0.02)

AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

(Unaudited)

The Company used an average market price of CAD\$0.14 per share and CAD\$0.13 per share for the three and nine months ended September 30, 2016, respectively (CAD\$0.11 and CAD\$0.13 per share for the three and nine months ended September 30, 2015, respectively) to calculate the dilutive effect of stock options. For the nine months ended September 30, 2016, 15,479,500 options were anti-dilutive and were not included in the calculation of dilutive loss per share (nine months ended September 30, 2015 – 10,691,500).

9) Financial Instruments:

Assets and liabilities at September 30, 2016 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, due to related party and accounts payable and accrued liabilities are assessed on the fair value hierarchy described above. The Company's cash and cash equivalents, receivables and payables are classified as Level 2. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. There were no transfers between levels in the fair value hierarchy in the period.

10) Commitments and Contingencies:

Office and housing leases

The Company has committed to future minimum payments at September 30, 2016 under a South African operating lease that includes the rental of housing and office space, including a proportionate share of operating costs as follows:

2016	26
2017	22
Total minimum payments	48

AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

(Unaudited)

11) Subsequent Events:

a) Block 2B, Republic of South Africa

On October 21, 2016, the Company closed three transactions resulting in the Company acquiring a 90% participating interest and operatorship in Block 2B offshore the Republic of South Africa.

i) Afren plc

The Company paid \$1.0 million to Afren plc (in Administration) and certain of its subsidiaries, acquiring the subsidiary holding a 25% participating interest in Block 2B.

ii) Thombo Petroleum Ltd.

The Company paid \$2.0 million and issued 14.8 million new common shares of the Company to acquire all of the shares of Thombo Petroleum Ltd., a privately held company operating and holding a 34.5% participating interest in Block 2B. The Company may be required to issue up to an additional 20 million common shares of Africa Energy and, at the option of the Company, to either pay and/or issue up to \$1.5 million in additional contingent cash and/or shares of Africa Energy, if certain milestones associated with the commercialization of Block 2B are achieved.

iii) Crown Energy AB

The Company completed a farm-in agreement with a subsidiary of Crown Energy AB ("Crown") to acquire a 30.5% participating interest in Block 2B. The Company will reimburse Crown for up to \$0.3 million of net back costs and will fund costs for Crown's remaining 10% participating interest associated with the drilling and testing of the next well in Block 2B.

Under the terms of the Block 2B Exploration Right, the Company and its partner are currently in the First Renewal Period which expires in March 2017. During the First Renewal Period, the Company and its partner are obligated to undertake the necessary technical work to determine the likely range of hydrocarbon volumes in the actual and potential reservoirs identified in the previous exploration period with a minimum gross expenditure of \$1.0 million.

b) Financing

Subsequent to the end of the quarter, the Company completed a non-brokered private placement issuing 60 million common shares at a price of CAD\$0.25 per share for gross proceeds of CAD\$15.0 million, or approximately \$11.2 million USD equivalent. A finder's fee of approximately \$0.2 million was paid in cash. The common shares issued under the private placement are subject to a statutory hold period which will expire in March 2017.

AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

(Unaudited)

12) Supplementary Information:

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

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Changes in non-cash working capital				
Accounts receivable	\$ (29)	\$ (55)	\$ (45)	\$ (88)
Prepaid expenses	(110)	(155)	(96)	(193)
Accounts payable and accrued liabilities	(85)	79	(124)	(207)
	<u>\$ (224)</u>	<u>\$ (131)</u>	<u>\$ (265)</u>	<u>\$ (488)</u>
Relating to:				
Operating activities	\$ (237)	\$ (26)	\$ (253)	\$ (97)
Investing activities	13	(105)	(12)	(391)
Changes in non-cash working capital	<u>\$ (224)</u>	<u>\$ (131)</u>	<u>\$ (265)</u>	<u>\$ (488)</u>