AFRICA ENERGY CORP.

Report to Shareholders

December 31, 2016

AFRICA ENERGY CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Amounts expressed in United States dollars unless otherwise indicated)

For the years ended December 31, 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 audited consolidated financial statements for the years ended December 31, 2016 and 2015 and related notes thereto.

The financial information in this MD&A is derived from the Company's audited consolidated financial statements which have been prepared in 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 February 27, 2017.

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 December 31, 2016, Africa Oil Corp. ("AOC") owned 28.5% of the issued and outstanding common shares of Africa Energy.

Early in 2015, the Company invoked a new corporate strategy to take advantage of the current downturn in oil prices and is aggressively pursuing onshore and offshore upstream oil opportunities in Africa. Africa Energy has built a strong technical team which will be managed from an 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 the Exploration Right for 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 ("Afren")

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

Thombo Petroleum Ltd. ("Thombo")

The Company paid $2.0 million less obligations outstanding at the effective date and issued 14.8 million new common shares of the Company to acquire all of the shares of Thombo, 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 ("Crown")

The Company completed a farm-in agreement with a subsidiary of 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.

PETROLEUM EXPLORATION LICENCE 37 ("PEL 37"), REPUBLIC OF NAMIBIA

On November 29, 2016, the Company entered into a farmout agreement with a subsidiary of Pancontinental Oil & Gas N.L. ("Pancontinental") pursuant to which the Company will acquire a 10% participating interest in PEL 37 offshore, Republic of Namibia. Under the terms of the farmout agreement, the Company's participating interest share of all joint venture costs, including the drilling of the first exploration well on PEL 37, will be fully carried through the current exploration period by a joint venture partner. The Company has agreed to pay Pancontinental $1.7 million at close of the farmout agreement, and an additional $4.8 million upon spud of the first exploration well. Completion of the farmout agreement is subject to receipt of all requisite government approvals, other regulatory approvals, third party consents, partner approvals, and finalization of due diligence procedures.

OUTLOOK

The Company continues to aggressively 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 the Block 2B 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

During November 2016, 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 $0.3 million was paid in cash. The common shares issued under the private placement are subject to a statutory hold period which will expire on March 16, 2017.

SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share amounts)	**31-Dec 2016**	**30-Sep 2016**	**30-Jun 2016**	**31-Mar 2016**	**31-Dec 2015**	**30-Sep 2015**	**30-Jun 2015**	**31-Mar 2015**
Operating expenses ($)	(910)	(1,048)	(1,223)	(1,189)	(1,172)	(692)	(531)	(657)
Foreign exchange gain (loss) ($)	40	3	(3)	123	(53)	(102)	20	(16)
Net loss ($)	(866)	(1,044)	(1,224)	(1,064)	(1,223)	(792)	(508)	(673)
Weighted average shares - Basic	286,612	244,377	244,377	244,377	130,586	129,335	129,335	97,967
Weighted average shares - Diluted	286,612	244,377	244,377	244,377	130,586	129,335	129,335	97,967
Basic loss per share ($)	(0.00)	(0.00)	(0.01)	(0.00)	(0.01)	(0.01)	(0.00)	(0.01)
Diluted loss per share ($)	(0.00)	(0.00)	(0.01)	(0.00)	(0.01)	(0.01)	(0.00)	(0.01)
Oil and gas expenditures ($)	(424)	-	-	-	-	-	-	-

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

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 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 Production Sharing Agreements ("PSAs"). 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 in respect of Block 2B. Operating costs were relatively consistent from the fourth quarter of 2015 through to the third quarter of 2016. Operating costs decreased for the fourth quarter compared to the third quarter of 2016 due mainly to $0.2 million of professional fees directly related to acquisitions being capitalized in the fourth 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.

Weighted average shares increased in the fourth quarter of 2016 as a result of the financing that closed in November 2016.

Oil and gas expenditures increased in the fourth quarter of 2016 due to capitalization of transaction advisory expenses relating to the acquisition of Block 2B and work performed by the Company's technical exploration team on Block 2B subsequent to closing the three related transactions.

RESULTS OF OPERATIONS

(thousands)	Three months ended December 31, 2016	Three months ended December 31, 2015	Year ended December 31, 2016	Year ended December 31, 2015
Salaries and benefits	$ 472	$ 358	$ 2,168	$ 1,021
Stock-based compensation	83	92	478	523
Travel	142	83	325	171
Management fees	31	59	136	445
Consulting fees	36	13	143	15
Office and general	146	244	671	373
Depreciation	17	13	65	23
Professional fees	(24)	308	343	423
Stock exchange and filing fees	7	2	41	58
Operating expenses	$ 910	$ 1,172	$ 4,370	$ 3,052

Operating expenses decreased $0.3 million during the three months ended December 31, 2016 compared to the same period in 2015. The increase in salaries and benefit costs as well as travel 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 were higher during the three months ended December 31, 2015 due to costs associated with the closure of the Bosaso (Puntland) office. The decrease in professional fees is primarily due to the capitalization of transaction advisory expenses relating to the acquisition of Block 2B. 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 $1.3 million during the year ended December 31, 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 decrease in professional fees is primarily due to the capitalization of transaction advisory expenses relating to the acquisition of Block 2B. 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.

SELECTED ANNUAL INFORMATION

For the years ended December 31, (thousands, except per share amounts)		2016		2015		2014
Statement of Operations Data						
Interest income	$	9	$	7	$	2
Net loss		(4,198)		(3,196)		(92,348)
Data per Common Share						
Basic and diluted loss per share		(0.02)		(0.03)		(0.95)
Balance Sheet Data						
Net w orking capital		10,045		6,723		1,311
Total assets	$	17,236	$	7,378	$	1,776

As the Company is in the exploration stage, no oil and gas revenue has been generated to date. Accordingly, the only income reported is interest income on its cash deposits and foreign exchange gains on Canadian dollar and South African Rand holdings.

The interest income is attributable to cash on deposit raised through the Company's non-brokered private placements.

The Company recorded a net loss of $4.2 million in 2016 compared to a net loss in 2015 of $3.2 million which is an increase in net loss of $1.0 million. The increase can be mainly attributed to an increase in operating expenses as explained above in "Results of Operations".

The Company recorded a net loss of $3.2 million in 2015 compared to a net loss in 2014 of $92.3 million which is a reduction in net loss of $89.2 million. The net loss in 2014 was due mainly to the $90.6 million impairment charge relating to the Company's previously capitalized exploration expenditures in respect of the Company's interest in PSAs in the Dharoor and Nugaal exploration areas in Puntland (Somalia).

The increase in net working capital from 2015 to 2016 is primarily due to the completion of a private placement during the fourth quarter of 2016 in which the Company received $11.2 million in gross proceeds, partially offset by Block 2B acquisition costs and cash-based operating expenses. The increase in net working capital from 2014 to 2015 is due to the completion of two private placements in 2015 in which the Company received $8.4 million in gross proceeds, offset partially by cash-based operating expenditures.

The increase in total assets from 2015 to 2016 and from 2014 to 2015 are due to the completion of private placements which occurred during the fourth quarter of 2016, the first quarter of 2015 and the fourth quarter of 2015, offset partially by cash-based operating expenditures.

INTANGIBLE EXPLORATION ASSETS

(thousands)		December 31, 2016		December 31, 2015
Intangible exploration assets	$	6,521	$	-

During 2016, the Company completed the acquisition of a 90% participating interest in the Exploration Right for Block 2B offshore the Republic of South Africa, and consist primarily of acquisition and related costs.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2016, the Company had cash of $10.2 million and working capital of $10.0 million compared to cash of $7.0 million and working capital of $6.7 million at December 31, 2015. The increase in the Company's cash position and working capital are primarily due to the completion of a non-brokered private placement for gross proceeds of $11.2 million during the fourth quarter of 2016. Partially offsetting the proceeds from the non-brokered private placement, the Company incurred cash-based operating expenditures and funded a portion of 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 year ended December 31, 2016 and 2015 was $0.5 million. The Company granted 7.3 million stock options at an average price of $0.12 per option to directors, officers, employees and consultants of the Company during 2016, compared to 6.3 million stock options at an average price of $0.16 per option granted during 2015.

RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH AOC:

At December 31, 2016, Africa Oil Corp. ("AOC") owned 28.5% of the common shares of Africa Energy.

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 2016 (2015 – $0.4 million). At December 31, 2016, the outstanding balance payable to AOC was $ nil (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 2016, AOC invoiced the Company $0.1 million for reimbursable expenses paid by AOC on behalf of the Company (2015 - $0.1 million). At December 31, 2016, the outstanding balance payable to AOC was $0.06 million (at December 31, 2015 – $0.09 million).

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT:

Remuneration of Directors and Senior Management includes all amounts earned and awarded to the Company's Board of Directors and Senior Management. Senior Management includes the Company's President and Chief Executive Officer, Chief Financial Officer, Vice President of Exploration and the Chief Operating Officer who resigned on February 1, 2016.

Directors' fees include Board and Committee Chair retainers and meeting fees. Management's short-term wages and benefits include salary, benefits, bonuses and any other compensation earned or awarded during the year. Share-based compensation includes expenses related to the Company's stock option plan.

For the years ended December 31, (thousands)		**2016**		**2015**
Directors' fees	$	102	$	101
Directors' share-based compensation		112		182
Management's short-term wages, bonuses and benefits		1,086		593
Management's share-based compensation		156		194
	$	1,456	$	1,070

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. Subsequent to December 31, 2016, the Company submitted an Exploration Right renewal application to the Government of the Republic of South Africa. As part of the application process, the Company has proposed a work program and budget which will need to be agreed with the Government of the Republic of South Africa. The application submitted is for entry into the Second Renewal Period and is for a period of two years

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 farmout agreement with a subsidiary of Crown, 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 December 31, 2016 under South African operating leases that includes the rental of housing and office space, including a proportionate share of operating costs as follows:

2017	79
2018	75
2019	19
Total minimum payments	173

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 December 31, 2016 and February 27, 2017	319,177,135
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.

CRITICAL ACCOUNTING ESTIMATES

The Company's critical accounting estimates are defined as those estimates that have a significant impact on the portrayal of its financial position and operations and that require management to make judgments, assumptions and estimates in the application of IFRS. Judgments, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgments, assumptions and estimates may be subject to change. The Company believes the following are the critical accounting estimates used in the preparation of its consolidated financial statements. The Company' significant accounting policies can be found in the Company's Financial Statements for the year ended December 31, 2016.

USE OF ESTIMATES

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

INTANGIBLE EXPLORATION ASSETS

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

Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are recognized in the statement of operations. If commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalized intangible exploration costs are transferred into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit” or “CGU”) within intangible exploration assets. The allocation of the company’s assets into CGUs requires judgment.

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

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

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

STOCK-BASED COMPENSATION

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

INCOME TAX

The Company follows the balance sheet method of accounting for income taxes whereby future income taxes are recognized based on the differences between the carrying values of assets and liabilities reported in the Annual Financial Statements and their respective tax basis. Future income tax assets and liabilities are recognized at the tax rates at which Management expects the temporary differences to reverse. Management bases this expectation on future earnings, which require estimates for reserves, timing of production, crude oil price, operating cost estimates and foreign exchange rates. Management assesses, based on all available evidence, the likelihood that the future income tax assets will be recovered from future taxable income and a valuation allowance is provided to the extent that it is more than likely that future income tax assets will not be realized. As a result, future earnings are subject to significant Management judgment.

NEW ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES

There are no new standards or amendments to existing standards effective January 1, 2016.

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these financial statements.

IFRS 9: FINANCIAL INSTRUMENTS

The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company has not fully assessed the impact of IFRS 9.

IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Company has not fully assessed the impact of IFRS 15.

IFRS 16: LEASES

In January 2016, the IASB issued IFRS 16 Leases. It replaces the existing leasing standard (IAS 17 Leases) and provides transparency on companies' lease assets and liabilities by removing off balance sheet lease financing and will improve comparability between companies that lease and those that borrow to buy. IFRS 16 is effective January 1, 2019, with earlier application permitted. The company is currently assessing the impact of this standard.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

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 27, 2017 on Sedar (www.sedar.com) for further risk factor disclosures.

INTERNATIONAL OPERATIONS

Africa Energy participates in oil and gas projects located in emerging markets. Oil and gas exploration, development and production activities in these emerging markets are subject to significant political and economic uncertainties which may adversely affect the Company's operations. Uncertainties include, but are not limited to, the risk of war, terrorism, expropriation, civil unrest, nationalization, renegotiation or nullification of existing or future concessions and contracts, the imposition of international sanctions, a change in crude oil or natural gas pricing policies, a change in taxation policies, and the imposition of currency controls. 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 acquires an interest. The Company may require licenses or permits from various governmental authorities to carry out future exploration, development and production activities. There can be no assurance that Africa Energy will be able to obtain all necessary licenses and permits when required.

RISKS RELATING TO SOUTH AFRICAN REGULATIONS

Many of the Company’s holdings are in South Africa and are subject to South African laws and regulations, such as the Liquid Fuels Charter made November 2, 2000. The Liquid Fuels Charter requires the holder of certain exploration rights and licenses to make sincere attempts to find a suitable partner who is a Historically Disadvantaged South African and to make available to such partner not more than a 1/10th undivided interest share in the right or license at fair market value. The terms of, and application of, these black empowerment policies and other laws and regulations in South Africa are subject to change and may impact the Company’s holdings in South Africa.

DIFFERENT LEGAL SYSTEM AND LITIGATION

The South African legal system differs in various degrees from that of Canada. Rules, regulations and legal principles may differ both relating to matters of substantive law and in respect of such matters as court procedure and enforcement. Almost all material production and exploration rights and related contracts of the Company will be subject to the national or local laws of South Africa. This means that the Company's ability to exercise or enforce its rights and obligations will differ from what would have been the case if such rights and obligations were subject to Canadian law and jurisdiction.

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

UNCERTAINTY OF TITLE

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

COMPETITION

The petroleum industry is intensely competitive in all aspects including the acquisition of oil and gas interests, the marketing of oil and natural gas, and acquiring or gaining access to necessary drilling and other equipment and supplies. Africa Energy competes with numerous other companies in the search for and acquisition of prospects.

RISKS INHERENT IN OIL AND GAS EXPLORATION AND DEVELOPMENT

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

CAPITAL REQUIREMENTS

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

PSAs. Availability of capital will also directly impact the Company's ability to take advantage of acquisition opportunities.

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 to foreign currency exchange risk is mitigated by the fact that the Company sources the majority of its capital projects and expenditures in US dollars. The Company has not entered into any derivative instruments in an effort to mitigate exposure to fluctuations in foreign exchange rates.

For the year ended December 31, 2016, a 5% increase or decrease in the value of the Canadian dollar and South African Rand in relation to the US dollar, which is the Company's functional currency, and using the ending Canadian dollar and South African Rand cash balances would have resulted in an approximately $0.3 million (2015 – $0.06 million) increase or decrease in foreign exchange gains/losses in US dollars.

At December 31, 2016, the Company had CAD$8.8 million (2015 – CAD$1.4 million) and R3.7 million (2015 – R2.4 million) in cash and cash equivalents.

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 December 31, 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.

February 27, 2017

Independent Auditor's Report

To the Shareholders of
Africa Energy Corp.

We have audited the accompanying consolidated financial statements of Africa Energy Corp. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of net loss and comprehensive loss, equity attributable to common shareholders and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

PricewaterhouseCoopers LLP
111 5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: 403 509 7500, F:403 781 1825, www.pwc.com/ca

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Africa Energy Corp. and its subsidiaries as at December 31, 2016 and December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

AFRICA ENERGY CORP.

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

	Note	December 31, 2016	December 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents		$ 10,179	$ 7,004
Accounts receivable		164	122
Prepaid expenses		268	146
		10,611	7,272
Long-term assets			
Property and equipment	7	104	106
Intangible exploration assets	8	6,521	-
		6,625	106
Total assets		$ 17,236	$ 7,378
LIABILITIES AND EQUITY ATTRIBUTABLE TO COMMON SHAREHOLDERS			
Current liabilities			
Accounts payable and accrued liabilities		$ 509	$ 462
Due to related party	14	57	87
		566	549
Total liabilities		566	549
Equity attributable to common shareholders			
Share capital	9	108,246	94,685
Contributed surplus	10	4,301	3,823
Deficit		(95,877)	(91,679)
Total equity attributable to common shareholders		16,670	6,829
Total liabilities and equity attributable to common shareholders		$ 17,236	$ 7,378
Commitments and contingencies	19		

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

Approved on behalf of the Board:

"IAN GIBBS"	*"ASHLEY HEPPENSTALL"*
IAN GIBBS, DIRECTOR	**ASHLEY HEPPENSTALL, DIRECTOR**

AFRICA ENERGY CORP.

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

For the years ended	**Note**	**December 31, 2016**	**December 31, 2015**
Operating expenses			
Salaries and benefits		$ 2,168	$ 1,021
Stock-based compensation	10	478	523
Travel		325	171
Management fees	14	136	445
Consulting fees		143	15
Office and general		671	373
Depreciation	7	65	23
Professional fees		343	423
Stock exchange and filing fees		41	58
		4,370	3,052
Finance expense	13	-	151
Finance income	13	(172)	(7)
Net loss and comprehensive loss attributable to common shareholders		(4,198)	(3,196)
Net loss per share	16		
Basic		$ (0.02)	$ (0.03)
Diluted		$ (0.02)	$ (0.03)
Weighted average number of shares outstanding for the purpose of calculating earnings per share	16		
Basic		254,993,528	121,915,860
Diluted		254,993,528	121,915,860

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)

	Note		December 31, 2016		December 31, 2015
Share capital:	9(b)				
Balance, beginning of the year		$	94,685	$	86,494
Acquisition of Thombo			2,721		-
Private placement, net of issue costs			10,840		8,191
Balance, end of the year			108,246		94,685
Contributed surplus:					
Balance, beginning of the year		$	3,823	$	3,300
Stock-based compensation	10		478		523
Balance, end of the year			4,301		3,823
Deficit:					
Balance, beginning of the year		$	(91,679)	$	(88,483)
Net loss for the year			(4,198)		(3,196)
Balance, end of the year			(95,877)		(91,679)
Equity attributable to common shareholders		$	16,670	$	6,829

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)

For the years ended		December 31, 2016	December 31, 2015
Cash flow s provided by (used in):	**Note**		
Operations:			
Net loss for the year		$ (4,198)	$ (3,196)
Item not affecting cash:			
Stock-based compensation	10	478	523
Depreciation	7	65	23
Unrealized foreign exchange (gain)/loss		(163)	151
Changes in non-cash operating w orking capital	20	(592)	226
		(4,410)	(2,273)
Investing:			
Property and equipment expenditures	7	(63)	(129)
Intangible exploration expenditures	8	(424)	-
Acquisition of Block 2B	5, 6(i)	(3,232)	-
Changes in non-cash investing w orking capital	20	331	(231)
		(3,388)	(360)
Financing:			
Common shares issued	9(b)	11,162	8,368
Share issuance costs	9(b)	(322)	(177)
Advances from related party	14	234	564
Payments to related party	14	(264)	(572)
		10,810	8,183
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		163	(151)
Increase in cash and cash equivalents		3,175	5,399
Cash and cash equivalents, beginning of the year		$ 7,004	$ 1,605
Cash and cash equivalents, end of the year		$ 10,179	$ 7,004
Supplementary information:			
Interest paid		Nil	Nil
Taxes paid		Nil	Nil

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

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:

b) The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of February 27, 2017, the date the Board of Directors approved the statements.

c) Basis of measurement:

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

d) 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 (refer to Note 17) is US dollars, which represents the currency of the primary economic environment in which the entities operate.

e) 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are noted below with further details of the assumptions contained in the relevant note.

i) Exploration and evaluation costs:

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

ii) Share-based payments:

Charges for share-based payments are based on the fair value at the date of the award. The shares are valued using the Black-Scholes model, and inputs to the model include assumptions on share price volatility, discount rates and expected life outstanding (see note 10).

iii) *Valuation of contingent consideration (estimate):*
The valuation of contingent consideration is based on management's best estimate and relies on information available during the preparation of the consolidated financial statements. Management will review and revise the valuation of contingent consideration as more information becomes available.

3) Significant accounting policies:

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

a) Basis of consolidation:

i) Subsidiaries:

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

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The consideration of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred at the date control passes. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The fair value of property, plant and equipment and intangible exploration assets recognized in a business combination, is based on market values. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of net loss and comprehensive loss.

ii) Jointly controlled operations and jointly controlled assets:

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

iii) Transactions eliminated on consolidation:

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

b) Foreign currency:

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at exchange rates prevailing at the balance sheet date and non-monetary assets and liabilities are translated at rates in effect on the date of the transaction. Revenues and expenses are translated at exchange rates at the date of transaction. Exchange gains or losses arising from translation are included in the statement of net loss and comprehensive loss.

c) Property and equipment and Intangible exploration assets:

i) Pre-exploration expenditures:

Costs incurred prior to obtaining the legal rights to explore an area are recognized in the statement of net loss and comprehensive loss as incurred.

ii) Exploration expenditures:

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

If commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalized intangible exploration costs are transferred into a cash-generating unit within "oil and gas interests" subsequent to determining that the assets are not impaired (see "Impairment" below). Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are recognized in the statement of net loss and comprehensive loss.

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

iii) *Development and production costs:*

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated are capitalized within “oil and gas interests” on a cash-generating unit basis. Subsequent expenditures are capitalized only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any remaining costs associated with the part replaced are expensed in the statement of net loss and comprehensive loss.

Net proceeds from any disposal of “oil and gas interests” are recorded as a gain or loss on disposal recognized in the statement of net loss and comprehensive loss to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalized costs of the asset.

d) Depletion and depreciation:

The net carrying value of “oil and gas interests” are depleted on a cash-generating unit basis using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Such reserves are considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

For property and equipment, depreciation is recognized in the statement of net loss and comprehensive loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated. The estimated useful lives for other property and equipment, consisting of primarily office and computer equipment, for the current and comparative years are from one to three years.

e) Impairment:

i) Financial assets carried at amortized cost:

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

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

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

All impairment losses are recognized in the statement of net loss and comprehensive loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of net loss and comprehensive loss.

ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than intangible exploration assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible exploration assets are assessed for impairment when they are reclassified to property and equipment, as oil and gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal.

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

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

f) Stock-based compensation:

The Company has a stock option plan as described in note 10. The Company uses the fair value method, utilizing the Black-Scholes option pricing model, for valuing stock options granted to directors, officers, consultants and employees. The estimated fair value is recognized over the applicable vesting period as stock-based compensation expense and an increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. When the stock options are exercised, the proceeds received and the applicable amounts recorded in contributed surplus are credited to share capital.

g) Finance income and expenses:

Borrowing costs incurred for the purpose of funding oil and gas exploration and development expenditures are capitalized. All other borrowing costs are recognized in the statement of net loss and comprehensive loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

Interest income is recognized as it accrues in the statement of net loss and comprehensive loss, using the effective interest method.

Gains and losses related to foreign currency are reported under each of finance income and finance expenses on a net basis.

h) Income tax:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of net loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

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

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

i) Earnings per share:

Basic earnings per share is calculated by dividing the statement of net loss and comprehensive loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the statement of net loss and comprehensive loss and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees. The weighted average number of diluted shares is calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price.

j) Financial instruments:

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

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

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

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

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

ii) Available-for-sale investments:

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not have any financial instruments in this category.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive loss. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of net loss and comprehensive loss as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of net loss and comprehensive loss when the Company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of net loss and comprehensive loss.

iii) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise of cash and cash equivalents and accounts receivable. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

iv) Financial liabilities at amortized cost:

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

k) Provisions:

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

Decommissioning obligations:

The Company's activities may give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision was established.

4) New accounting standards:

There are no new standards or amendments to existing standards effective January 1, 2016.

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these financial statements.

IFRS 9: Financial instruments

The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is currently assessing the impact of this standard.

IFRS 15: Revenue from contracts with customers

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Company is currently assessing the impact of this standard.

IFRS 16: Leases

In January 2016, the IASB issued IFRS 16 Leases. It replaces the existing leasing standard (IAS 17 Leases) and provides transparency on companies' lease assets and liabilities by removing off balance sheet lease financing and will improve comparability between companies that lease and those that borrow to buy. IFRS 16 is effective January 1, 2019, with earlier application permitted. The Company is currently assessing the impact of this standard.

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

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

5) Asset acquisitions:

On October 21, 2016, the Company completed the following asset acquisitions in respect of Block 2B offshore the Republic of South Africa:

i) Main Street 840 (Proprietary) Limited ("Main Street")

The Company paid $1.0 million to Afren plc (in Administration) and certain of its subsidiaries, to acquire all of the shares of Main Street which holds a 25% participating interest in Block 2B.

ii) Thombo Petroleum Ltd. ("Thombo")

The Company paid $2.0 million less obligations outstanding at the effective date and issued 14.8 million new common shares of the Company, at a price of CAD $0.24 per share, to acquire all of the shares of Thombo, 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 (see note 19). Due to management's assessment of the likelihood and timing of payments due based on the milestones, there has been no value assigned to the contingent consideration.

Costs associated with the acquisition, amounting to $0.3 million, were capitalized.

The financial results of Main Street and Thombo have been included in the Company's consolidated financial statements since the closing date.

The below amounts are estimates, which were made by management at the time of the preparation of these consolidated financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

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

Net Assets Acquired

	Thombo	Main Street	Total
Net assets acquired:			
Cash and cash equivalents	$ 31	$ -	$ 31
Accounts receivable	9	-	9
Intangible exploration assets	4,732	1,034	5,766
Accounts payable and accrued liabilities	(119)	(34)	(153)
Total net assets acquired	$ 4,653	$ 1,000	$ 5,653

Consideration

	Thombo	Main Street	Total
Shares issued	$ 2,721	$ -	$ 2,721
Cash issued	1,932	1,000	2,932
Total purchase price	$ 4,653	$ 1,000	$ 5,653

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

6) Farmouts:

i) Crown Energy AB ("Crown")

The Company completed a farm-in agreement with a subsidiary of Crown to acquire a 30.5% participating interest in Block 2B offshore, the Republic of South Africa. As part of the transaction, the Company accrued $0.3 million for the reimbursement of net back costs to the Crown. In addition, the Company will fund costs for Crown's remaining 10% participating interest associated with the drilling and testing of the next well in Block 2B.

Together with the acquisition of Main Street and Thombo, the Company now holds a 90% participating interest and operatorship in Block 2B offshore the Republic of South Africa.

ii) Pancontinental Oil and Gas N.L. ("Pancontinental")

During November 2016, the Company entered into a Farmout Agreement with a subsidiary of Pancontinental pursuant to which the Company will acquire a 10% participating interest in Petroleum Exploration License 37 ("PEL 37"), an offshore block located in the Republic of Namibia. Under the terms of the Farmout Agreement, the Company's participating interest share of all joint venture costs, including the drilling of the first exploration well on PEL 37, will be fully carried through the current exploration period by a joint venture partner. The Company has agreed to pay Pancontinental $1.7 million at close of the Farmout Agreement, and an additional $4.8 million upon spud of the first exploration well. Completion of the Farmout Agreement is subject to receipt of all requisite government approvals, other regulatory approvals, third party consents, partner approvals, and finalization of due diligence procedures. The acquisition of this participating interest and associated costs and liabilities will be recognized upon completion of the farmout transaction.

7) Property and equipment:

	December 31, 2016	December 31, 2015
Cost, beginning of the year	$ 129	$ -
Additions	63	129
Cost, end of the year	192	129
Accumulated depreciation, beginning of the year	(23)	-
Depreciation	(65)	(23)
Accumulated depreciation, end of the year	(88)	(23)
Net carrying amount, beginning of the year	$ 106	$ -
Net carrying amount, end of the year	$ 104	$ 106

During the years ended December 31, 2016 and 2015, the Company purchased property and equipment for its technical office, which is located in Cape Town, South Africa.

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

8) Intangible exploration assets:

		December 31, 2016		December 31, 2015
Net carrying amount, beginning of the year	$	-	$	-
Intangible exploration expenditures		424		-
Farmout (note 6)		331		-
Acquisitions (note 5)		5,766		-
Net carrying amount, end of the year	$	6,521	$	-

As at December 31, 2016, $6.5 million of exploration expenditures have been capitalized as intangible exploration assets (December 31, 2015 – nil). These expenditures relate to the acquisition of a 90% participating interest in Block 2B which occurred during the fourth quarter of 2016, and also geological and geophysical studies and general and administrative costs directly related to Block 2B.

During the year ended December 31, 2016, the Company capitalized $0.4 million of general and administrative expenses related to intangible exploration assets (December 31, 2015 – nil).

9) Share capital:

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

b) Issued:

	December 31, 2016			December 31, 2015		
	Shares		Amount	Shares		Amount
Balance, beginning of the year	244,377,135	$	94,685	96,849,316	$	86,494
Acquisition of Thombo Petroleum Ltd	14,800,000		2,721	-		-
Private placement, net of issue costs	60,000,000		10,840	147,527,819		8,191
Balance, end of the year	319,177,135	$	108,246	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 in May 2016.

On October 21, 2016, the Company issued 14,800,000 new common shares of the Company to acquire all of the shares of Thombo (see Note 5). The common shares issued in accordance with the share purchase agreement are subject to a statutory hold period which expired February 22, 2017.

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

During November 2016, the Company completed a non-brokered private placement issuing an aggregate of 60,000,000 common shares at a price of CAD $0.25 per share for gross proceeds of $11.2 million. A finder's fee was paid in the amount of $0.3 million in cash. The common shares issued under the private placement are subject to a statutory hold period which will expire on March 16, 2017.

10) 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:

	December 31, 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 or cancelled	(230,000)	0.18	(2,795,000)	0.36
Balance, end of the year	15,479,500	0.16	8,399,500	0.19

i) No stock options were exercised during the years ended December 31, 2016 or 2015.

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 years ended December 31, 2016 and 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 $0.5 million in stock-based compensation expense for the year ended December 31, 2016 (December 31, 2015 - $0.5 million).

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

The following table summarizes information regarding stock options outstanding at December 31, 2016:

Weighted Average Exercise price (CAD$/share)	Number outstanding	Weighted average remaining contractual life in years
0.30	1,884,500	0.37
0.17	4,885,000	3.19
0.13	1,420,000	3.62
0.11	1,850,000	4.26
0.125	5,440,000	4.38
0.16	15,479,500	3.44

11) Financial risk management:

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

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

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

a) Credit risk:

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The majority of our credit exposure relates to amounts due from our joint venture partners. The risk of our joint venture partners defaulting on their obligations per their respective joint operating and farmout agreements is mitigated as there are contractual provisions allowing the Company to default joint venture partners who are non-performing and reacquire any previous farmed out working interests. The maximum exposure for the Company is equal to the sum of its cash and accounts receivable. As at December 31, 2016, the Company held $0.3 million of cash in financial institution outside of Canada where there could be increased exposure to credit risk.

b) Liquidity risk:

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

The Company 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.

To finance its future acquisition, exploration, development and operating costs, Africa Energy will require financing from external sources, potentially including the 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.

c) Market risk:

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

i) Foreign currency exchange rate risk:

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

For the year ended December 31, 2016, a 5% increase or decrease in the value of the Canadian dollar and South African Rand in relation to the US dollar, which is the Company's functional currency, and using the ending Canadian dollar and South African Rand cash balances would have resulted in an approximately $0.3 million (2015 – $0.06 million) increase or decrease in foreign exchange gains/losses in US dollars.

At December 31, 2016, the Company had CAD$8.8 million (2015 – CAD$1.4 million) and R3.7 million (2015 – R2.4 million) in cash and cash equivalents.

ii) Interest rate risk:

As at December 31, 2016, the Company has not entered into any borrowing arrangements or derivative instruments in which exposure to fluctuations in interest rates exists.

iii) Commodity price risk:

The Company is not directly exposed to fluctuations in commodity prices as Africa Energy is currently in the exploration phase and has no production.

12) Capital management:

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

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

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

13) Finance income and expense:

Finance income and expense for the years ended December 31, 2016 and 2015 is comprised of the following:

For the years ended		December 31, 2016		December 31, 2015
Interest and other income	$	(9)	$	(7)
Foreign exchange (gain)/loss		(163)		151
Finance income	$	(172)	$	(7)
Finance expense		-		151

14) Related party transactions:

a) Transactions with AOC:

At December 31, 2016, Africa Oil Corp. ("AOC") owned 28.5% of the common shares of Africa Energy.

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 2016 (2015 – $0.4 million). At December 31, 2016, the outstanding balance payable to AOC was $ nil (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 2016, AOC invoiced the Company $0.1 million for reimbursable expenses paid by AOC on behalf of the Company (2015 - $0.1 million). At December 31, 2016, the outstanding balance payable to AOC was $0.06 million (at December 31, 2015 – $0.09 million).

b) Remuneration of Directors and Senior Management:

Remuneration of Directors and Senior Management includes all amounts earned and awarded to the Company's Board of Directors and Senior Management. Senior Management includes the Company's President and Chief Executive Officer, Chief Financial Officer, Vice President of Exploration and the Chief Operating Officer who resigned on February 1, 2016.

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

Directors' fees include Board and Committee Chair retainers and meeting fees. Management's short-term wages and benefits include salary, benefits, bonuses and any other compensation earned or awarded during the year. Share-based compensation includes expenses related to the Company's stock option plan.

For the years ended December 31,		**2016**		**2015**
(thousands)				
Directors' fees	$	102	$	101
Directors' share-based compensation		112		182
Management's short-term wages, bonuses and benefits		1,086		593
Management's share-based compensation		156		194
	$	1,456	$	1,070

15) Income Taxes:

Substantially all of the differences between actual income tax expense (recovery) of $ nil and the expected federal, AB and BC statutory corporate income tax recovery related to losses not recognized and share issue costs.

The following table reconciles the expected tax recovery calculated at the Canadian statutory rate with the actual tax recovery:

For the years ended December 31,		**2016**		**2015**
Net loss and comprehensive loss	$	(4,198)	$	(3,196)
Combined federal and provincial statutory income tax rate		27.0%		26.0%
Expected tax recovery		(1,133)		(831)
Stock-based compensation		129		136
Loss taxed at a different rate		(30)		-
Non-taxable expense items		15		22
Unrecognized tax losses		1,019		673
Tax recovery	$	-	$	-

The Company has the following un-booked deductible temporary differences at December 31, 2016 and 2015:

		2016		**2015**
Unbooked deductible temporary differences				
Share issue costs	$	400	$	448
Non-capital losses carried forward		43,374		8,937
Charitable Donations		403		403
	$	44,177	$	9,788

The Company has non-capital losses carry forward of $14.2 million in Canada which begin expiring 2031 and non-capital losses carry forward of $29.2 million in South Africa which relate to the acquisition of Main Street. The non-capital losses in South Africa do not expire.

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

16) Net Loss Per Share:

For the years ended	December 31, 2016			December 31, 2015		
		Weighted Average			Weighted Average	
	Earnings	Number of shares	Per share amounts	Earnings	Number of shares	Per share amounts
Basic earnings per share						
Net loss attributable to common shareholders	$ (4,198)	254,993,528	$ (0.02)	$ (3,196)	121,915,860	$ (0.03)
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	$ (4,198)	254,993,528	$ (0.02)	$ (3,196)	121,915,860	$ (0.03)

The Company used an average market price of CAD$0.16 per share for year ended December 31, 2016 (CAD$0.12 per share for the year ended December 31, 2015) to calculate the dilutive effect of stock options. For the year ended December 31, 2016, 15,479,500 options were anti-dilutive and were not included in the calculation of dilutive loss per share (December 31, 2015 – 8,399,500).

17) Subsidiaries:

The Company has the following wholly owned subsidiaries; Canmex Holdings (Bermuda) I Ltd. (Bermuda), Canmex Holdings (Bermuda) II Ltd. (Bermuda), Africa Energy Holdings (Bermuda) I Ltd. (Bermuda), Africa Energy SA Corp (Canada), Thombo Petroleum Ltd. (United Kingdom), and Main Street (Proprietary) Limited (South Africa). All of the Company's subsidiaries are engaged in oil and gas exploration activities.

18) Financial Instruments:

Assets and liabilities at December 31, 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. The fair value approximates the carrying value due to short maturity. There were no transfers between levels in the fair value hierarchy in the period.

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

19) Commitments and Contingencies:

a) PSA and Agreement Commitments

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 will be obligated to;

1. At spud of the third well (AJ-1 well drilled in 1988 being the first and only well drilled on Block 2B to date), pay $0.5 million cash or issue the equivalent value of common shares of the Company valued at that time;

2. At spud of the fourth well, pay $0.5 million cash or issue the equivalent value of common shares of the Company valued at that time; and

3. At declaration of commerciality by the joint operating committee, either;

a. pay $0.5 million cash or issue the equivalent value of common shares of the Company valued at that time; or

b. in the event that a predetermined level of reserves are achieved, issue up to 20 million common shares of the Company dependent on the number of reserves at that time.

Under the farmout agreement with a subsidiary of Crown, 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.

b) Office and housing leases

The Company has committed to future minimum payments at December 31, 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:

2017	79
2018	75
2019	19
Total minimum payments	173

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

20) Supplementary Information:

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

For the years ended	December 31, 2016	December 31, 2015
Changes in non-cash working capital		
Accounts receivable	$ (42)	$ (18)
Prepaid expenses	(122)	(79)
Accounts payable and accrued liabilities	47	92
	$ (117)	$ (5)
Non-cash working capital acquired	(144)	-
	$ (261)	$ (5)
Relating to:		
Operating activities	$ (592)	$ 226
Investing activities	331	(231)
Changes in non-cash working capital	$ (261)	$ (5)