AFRICA ENERGY CORP.

Report to Shareholders

December 31, 2019

AFRICA ENERGY CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Amounts expressed in United States dollars unless otherwise indicated)

For the years ended December 31, 2019 and 2018

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, 2019 and 2018 and related notes thereto.

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

The effective date of this MD&A is March 24, 2020.

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

PROFILE AND STRATEGY

Africa Energy Corp. is a Canadian oil and gas company with exploration assets in the Republic of South Africa ("South Africa") and the Republic of Namibia ("Namibia"). The Company is focused on high-impact exploration in Africa.

The Company holds an effective 4.9% participating interest in the Exploration Right for Block 11B/12B offshore South Africa ("Block 11B/12B"), a 90% participating interest in the Exploration Right for Block 2B offshore South Africa ("Block 2B"), and an effective 10% participating interest in Petroleum Exploration License 37 offshore Namibia ("PEL 37").

On February 24, 2020, the Company executed two farmout agreements whereby the Company will transfer operatorship and an aggregate 62.5% participating interest in Block 2B. The Company will retain a 27.5% participating interest in Block 2B. Closing of the two farmout agreements is subject to standard conditions for this type of transaction, including approval of the South African government.

The Company's common shares are traded on the TSX Venture Exchange under ticker symbol "AFE" and the Nasdaq First North Stockholm under ticker symbol "AEC". Africa Oil Corp. ("AOC") is the Company's largest shareholder with 32.6% of the issued and outstanding common shares of Africa Energy.

OPERATIONS UPDATE

Block 11B/12B, Republic of South Africa

The Company owns 49% of the shares of Main Street 1549 Proprietary Limited ("Main Street 1549"), which holds a 10% participating interest in Block 11B/12B offshore South Africa. The Company's effective interest in Block 11B/12B is therefore 4.9%. Block 11B/12B is operated by Total E&P South Africa BV ("Total"), a wholly-owned subsidiary of Total SA, which holds a 45% participating interest with partners Qatar Petroleum and CNR International (South Africa) Limited ("CNRI"), a wholly-owned subsidiary of Canadian Natural Resources Limited, holding 25% and 20%, respectively.

On February 7, 2019, the Company announced a significant gas condensate and light oil discovery on the Brulpadda Prospect on Block 11B/12B. The discovery opens a new world-class oil and gas play offshore South Africa with substantial follow-on potential. The Brulpadda well was drilled in approximately 1,400 meters of water by the Odfjell Deepsea Stavanger semi-submersible rig. The well targeted two objectives in a deep marine fan sandstone system within combined stratigraphic/structural closure. Following the success at the main objective, the well was deepened to a final depth of 3,633 meters and was successful in the Brulpadda-deep Prospect. The well encountered a total of 57 meters of net gas condensate pay over two Lower Cretaceous high-quality reservoirs. The well also encountered light oil pay in the upper reservoir and intersected the oil water contact calibrating the Amplitude Variance with Offset response. Core samples were taken in the upper reservoir, and a comprehensive logging and sampling program was performed over both reservoirs. The success at both the Brulpadda primary and secondary targets significantly de-risks other similar prospects on Block 11B/12B. The total drilling operation lasted 61 days and cost the joint venture partnership approximately $160 million.

The Brulpadda discovery is located on Block 11B/12B in the Outeniqua Basin 175 kilometers off the southern coast of South Africa. The block covers an area of approximately 19,000 square kilometers with water depths ranging from 200 to 1,800 meters.

In March and April 2019, Polarcus Limited ("Polarcus") acquired 570 square kilometers of 3D seismic with the Polarcus Asima vessel. The first phase of 3D seismic covered the Brulpadda discovery and the Luiperd Prospect. The joint venture partnership recently received the fully processed 3D seismic dataset. The 3D results validates the direct hydrocarbon indicators and thick reservoir development at the main objective and illuminates the deep target, confirming the large resource potential of the Paddavissie Fairway. The 3D seismic also increases our confidence in the sedimentological and structural interpretation and has been integral in selecting the location for the next exploration well on Block 11B/12B, the Luiperd Prospect.

The joint venture partnership continues to analyze and integrate the fully processed 3D seismic with the analysis of the core samples and the modular formation dynamics tester ("MDT") samples. The core indicates a high net to gross in the main objective with good intergranular porosity and permeability. The pressure, volume, and temperature analysis performed on the MDT samples confirmed the high liquid yield in the main gas condensate zone of the main and deep reservoirs.

In July 2019, the operator of Block 11B/12B, Total, executed a multi-well drilling contract with Odfjell Drilling for the Deepsea Stavanger semi-submersible rig, the same rig that drilled the Brulpadda discovery in February 2019. The rig is currently under contract with AkerBP in the North Sea and is expected to mobilize from the North Sea to South Africa in April 2020 and spud the Luiperd well in June 2020. Total is preparing a robust year-round drilling solution for the deepwater environment on Block 11B/12B.

On December 9, 2019, Shearwater GeoServices Holding AS commenced an initial 2D seismic program of 3,370 linear kilometers using the Multi-Purpose Vessel SW Cook. The goal of the 2D seismic program was to define the lead and prospect inventory of the large under-explored area in Block 11B/12B to the east of the Paddavissie Fairway. The scope of the survey was increased to focus on the new Kloofpadda lead to the east following encouraging seismic indicators identified with the onboard fast-track processing. The expanded survey totaling 7,589 linear kilometers was competed in March 2020.

On December 29, 2019, Petroleum Geo-Services ASA ("PGS") commenced the second phase 3D seismic program of 2,200 square kilometers using the PGS Apollo seismic vessel. The scope of the survey was increased to cover a newly identified northern extension to the Luiperd Prospect. PGS has covered approximately 1,652 square kilometers to date, and the expanded survey is expected to be completed in the second quarter of 2020.

The joint venture partnership is currently in the Second Renewal Period for the Block 11B/12B Exploration Right, which is for a period of two years ending May 17, 2020. The joint venture partnership has recently applied to enter into the Third Renewal Period, a two-year period from the date the renewal application is approved.

Block 2B, Republic of South Africa

Africa Energy is operator and has a 90% participating interest in Block 2B. Crown Energy AB ("Crown") indirectly holds the remaining 10% participating interest.

Block 2B is located in the Orange Basin and covers 3,604 square kilometers off the west coast of South Africa approximately 300 kilometers north of Cape Town with water depths ranging from 50 to 200 meters. Over the main area of interest in the block, the A-J rift graben, water depth ranges from 140 meters to 160 meters. Oil was discovered and tested by Soekor in the A-J1 borehole drilled in 1988.

On February 24, 2020, the Company executed two farmout agreements whereby the Company will transfer operatorship and an aggregate 62.5% participating interest in the Exploration Right for Block 2B offshore South Africa. Africa Energy will retain a 27.5% participating interest in Block 2B. Closing of the two farmout agreements is subject to standard conditions for this type of transaction, including approval of the South African government.

Under the terms of a farmout agreement entered into with a subsidiary of Azinam Limited ("Azinam"), a wholly-owned subsidiary of Africa Energy will farmout a 50% participating interest and transfer operatorship in Block 2B to Azinam (the "Azinam Farmout Agreement"). In consideration for the assignment of this interest, Azinam will pay Africa Energy $0.5 million at close and a disproportionate amount of the Gazania-1 exploration well and other joint venture costs on behalf of the Company. Azinam paid a $1.5 million deposit to Africa Energy at signature of the Azinam Farmout Agreement and will place an additional amount into escrow at close to support its obligations under the Azinam Farmout Agreement.

Under the terms of a farmout agreement entered into with a subsidiary of Panoro Energy ASA ("Panoro"), a wholly-owned subsidiary of Africa Energy will farmout a 12.5% participating interest in Block 2B to Panoro. In consideration for the assignment of this interest, Panoro will pay a disproportionate amount of the Gazania-1 exploration well costs on behalf of the Company.

Under the terms of the Block 2B Exploration Right, the Company and its partner have fulfilled the obligations of the Second Renewal Period, which was set to expire on February 20, 2020. Prior to expiry, the Block 2B joint venture partnership applied for entry into the Third Renewal Period which is the last period under the Block 2B Exploration Right. The Company has proposed to include an obligation to drill a well in the Third Renewal Period, which is for a period of two years from the date the application is approved by the South African Government. In accordance with the terms of the Block 2B Exploration Right, the Company is required to relinquish 15% of the current exploration area.

Petroleum Exploration License 37, Republic of Namibia

The Company owns one-third of the shares of Pancontinental Namibia Pty Ltd. ("Pancontinental Namibia"), which holds a 30% participating interest in PEL 37 offshore the Republic of Namibia. The Company's effective interest in PEL 37 is therefore 10%. PEL 37 is operated by Tullow Namibia Ltd, which holds a 35% participating interest, with partners ONGC Videsh Ltd. and Paragon Oil and Gas holding 30% and 5%, respectively.

PEL 37 covers 17,295 square kilometers in the Walvis Basin offshore Namibia approximately 420 kilometers south of the Angolan-Namibian border. In September 2018, the Cormorant-1 well was drilled safely and efficiently in 548 meters of water by the Ocean Rig Poseidon drillship to a total depth of 3,855 meters. The Cormorant-1 well penetrated a 50-meter fan system within the Cormorant Prospect. Interbedded sandstones were encountered in the primary objective of the well but proved to be water bearing. Wet gas signatures, indicative of oil, were encountered in the overlying shale section. The well has been plugged and abandoned.

The PEL 37 joint venture recently received a one-year extension to the Second Renewal Exploration Period until March 21, 2021. Several operators in Namibia are planning nearby exploration wells this year that could de-risk the remaining PEL 37 prospects.

FINANCING

On February 5, 2020, the Company completed a private placement issuing an aggregate of 104,652,174 common shares at a price of SEK 2.30 (approximately CAD $0.32) per share for gross proceeds of $25.0 million. A broker's fee of approximately $0.9 million was paid in cash to Pareto Securities AB and SpareBank1 Markets AS.

On May 4, 2018, the Company completed a private placement issuing an aggregate of 362,390,625 common shares at a price of CAD$0.16 per share for gross proceeds of approximately $45.0 million. A broker's fee of approximately $1.1 million was paid in cash to Pareto Securities AB.

SECONDARY LISTING – NASDAQ FIRST NORTH STOCKHOLM

On May 4, 2018, the Company's common shares commenced trading on Nasdaq First North Stockholm under ticker symbol "AEC". The secondary listing has significantly increased the Company's trading liquidity and provided access to a wider retail and institutional investor base in Europe. The Company's shares continue to trade on TSX Venture Exchange under ticker symbol "AFE".

OUTLOOK

2020 is expected to be an extremely active and potentially transformational period for the Company. The recent $25 million financing and the farmout of Block 2B will allow the Company to participate in up to four high-impact exploration wells offshore South Africa in 2020. The planned wells are all targeting material prospects with relatively high chances of success.

The Block 11B/12B joint venture operated by Total has embarked on an ambitious exploration program offshore South Africa to follow-up on the large Brulpadda light oil and gas condensate discovery in February 2019. The fully-processed Polarcus 3D dataset confirms the large resource potential of the Paddavissie Fairway. The expanded Shearwater 2D seismic survey is complete, and the onboard fast-track processing has identified significant prospectivity with encouraging seismic indicators across the new Kloofpadda lead to the east. The scope of the PGS 3D seismic survey has been increased to cover a newly identified northern extension to the Luiperd Prospect. The multi-well 2020 exploration program on Block 11B/12B is expected to commence with the Luiperd well in June and will target several de-risked submarine fan prospects with substantial prospective resources. As the global coronavirus situation is fluid, we will update investors if there are material changes to the drilling schedule.

Management is focused on closing the Block 2B farmouts whereby the Company will be carried through the next exploration well, Gazania-1, expected to spud by the end of 2020. Block 2B has significant contingent and prospective resources in shallow water close to shore, including the A-J1 discovery from 1988 that flowed light sweet crude oil to surface. The Gazania-1 well will target two prospects in a relatively low-risk rift basin oil play up-dip from the discovery.

SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share amounts)	**31-Dec 2019**	**30-Sep 2019**	**30-Jun 2019**	**31-Mar 2019**	**31-Dec 2018**	**30-Sep 2018**	**30-Jun 2018**	**31-Mar 2018**
Operating expenses ($)	(559)	(686)	(1,109)	(2,268)	(9,496)	(1,147)	(1,913)	(1,049)
Foreign exchange gain (loss) ($)	32	(35)	28	-	3	31	(59)	(13)
Interest and other income ($)	12	21	17	29	194	266	90	8
Net loss ($)	(515)	(700)	(1,064)	(2,239)	(9,299)	(850)	(1,882)	(1,054)
Weighted average shares - Basic	684,217	684,063	683,788	683,432	683,356	681,965	550,170	319,191
Weighted average shares - Diluted	684,217	684,063	683,788	683,432	683,356	681,965	550,170	319,191
Basic loss per share ($)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)
Diluted loss per share ($)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)
Exploration and evaluation expenditures ($)	(129)	(1)	(20)	(54)	(18)	(18)	(83)	(23)

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

Operating expenses increased during the second quarter of 2018 due to the issuance of 17.6 million stock options to directors, officers and employees of the Company, of which one-third vested immediately, as well as increased listing fees relating to the secondary listing on the Nasdaq First North Stockholm. Operating expenses increased during the fourth quarter of 2018 as the Company impaired the full amount of the investment in Pancontinental Namibia ($8.2 million). Operating expenses decreased in the first quarter of 2019 due to the impairment charge incurred in the fourth quarter of 2018. This decrease was offset by an increase in salary costs and stock-based compensation. Salary costs increased as the Company paid annual bonuses in the first quarter of 2019. Stock-based compensation increased due to the issuance of 13.7 million stock options to directors, officers and employees of the Company, of which one-third vested immediately. Operating expenses decreased in the second quarter of 2019 due to bonuses paid and stock options granted in the first quarter of 2019. Operating expenses decreased during the third and fourth quarters of 2019 due to a reduction in staff as well as a consulting agreement whereby the Company provides new venture services that are recorded as a reduction in salaries and benefits.

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

Interest income fluctuates in accordance with cash balances, the currency that the cash is held in, and prevailing market interest rates. The Company holds the vast majority of its cash on hand in US dollars, the Company's functional currency. The Company held cash in short-term U.S. dollar deposits from the end of the second quarter to the end of the fourth quarter of 2018.

Weighted average shares increased in the second and third quarters of 2018 due to the financing that closed in May 2018.

Oil and gas expenditures incurred during 2018 and 2019 related to license fees and geological and geophysical work performed on Block 2B. Additionally, the Company incurred costs in the fourth quarter of 2019 associated with planning an exploration well that is expected to spud by end of 2020.

RESULTS OF OPERATIONS

(thousands)	Three months ended December 31, 2019	Three months ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
Salaries and benefits	$ 160	$ 517	$ 2,001	$ 2,245
Stock-based compensation	270	210	1,643	1,093
Travel	44	92	204	252
Consulting fees	61	60	293	478
Office and general	39	124	352	486
Depreciation	9	1	16	20
Gain on disposal of property and equipment	-	-	-	(23)
Professional fees	83	93	217	344
Stock exchange and filing fees	17	52	148	328
Writedown/(recovery) of investment	(133)	8,202	(133)	8,202
Share of (gain)/loss from equity investments	9	145	(119)	180
Operating expenses	$ 559	$ 9,496	$ 4,622	$ 13,605

Operating expenses decreased by $9.0 million for the three months ended December 31, 2019 compared to the same period in 2018. The Company recognized an $8.2 million impairment of the investment in Pancontinental Namibia in 2018, and in 2019 the Company received $0.1 million from the investment in Pancontinental Namibia. Salaries and benefits decreased $0.4 million due to a decrease in staffing levels in the second quarter of 2019 and a consulting services agreement, effective March 1, 2019, whereby the Company provides new venture services that are recorded as a reduction to salaries and benefits. The Company's share of losses, primarily from its investment in Main Street 1549, decreased by $0.1 million during the three months ended December 31, 2019 compared to the same quarter in 2018.

Operating expenses decreased by $9.0 million for the year ended December 31, 2019 compared to the same period in 2018. The Company recognized an $8.2 million impairment of the investment in Pancontinental Namibia in 2018, and in 2019 the Company received $0.1 million from the investment in Pancontinental Namibia. Salaries and benefits decreased $0.2 million due to a decrease in staffing levels in the second quarter of 2019 and a consulting services agreement, effective March 1, 2019, whereby the Company provides new venture services that are recorded as a reduction to salaries and benefits. Stock-based compensation increased by $0.6 million due mainly to the increase in stock options vested during 2019 compared to 2018. Consulting fees decreased $0.2 million due mainly to a long-term consulting contract that expired September 30, 2018. Stock exchange and filing fees decreased $0.2 million due to one-time fees in the second quarter of 2018 related to the secondary listing on the Nasdaq First North Stockholm. Professional fees decreased $0.1 million due mainly to legal costs associated with the secondary listing in May of 2018. The Company recognized a gain of $0.1 million relating to its share of Main Street 1549's income in 2019 compared to a loss of $0.2 million in 2018.

SELECTED ANNUAL INFORMATION

For the years ended December 31, (thousands, except per share amounts)	2019	2018	2017
Statement of Operations Data			
Interest income	$ 79	$ 558	$ 61
Net loss	(4,518)	(13,085)	(4,744)
Data per Common Share			
Basic and diluted loss per share	(0.01)	(0.02)	(0.01)
Balance Sheet Data			
Working capital	2,111	3,197	(1,872)
Total assets	$ 41,908	$ 44,300	$ 17,457

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 cash deposits and foreign exchange gains on Canadian dollar and South African Rand holdings.

The increase in interest income is attributable to cash held in short-term U.S. dollar deposits received from the financing completed in May 2018.

The Company recorded a net loss of $4.5 million in 2019 compared to a net loss in 2018 of $13.1 million. The $8.6 million decrease in the net loss is mainly attributed to an impairment of the Company's investment in Pancontinental Namibia as explained above in "Results of Operations".

The Company recorded a net loss of $13.1 million in 2018 compared to a net loss in 2017 of $4.7 million. The $8.3 million increase in the net loss is mainly attributed to the Company recognizing an $8.2 million impairment of the investment in Pancontinental Namibia.

The decrease in working capital from 2018 to 2019 is due to cash-based operating expenditures which were partially offset by cash received from the Company's investment in Main Street 1549. The increase in working capital from 2017 to 2018 is due to the Company completing a private placement during 2018 which was offset by cash-based operating expenses and funding of the investments in Main Street 1549 and Pancontinental Namibia.

The decrease in total assets from 2018 to 2019 is primarily due to operating expenditures incurred in 2019. The increase in total assets from 2017 and 2018 is due to the Company's investment in Main Street 1549 offset partially by the write-down of Pancontinental Namibia.

INVESTMENT IN ASSOCIATES AND JOINT VENTURES

At December 31, 2019 and 2018, the Company held the following investment in associates and joint ventures:

(thousands)	December 31, 2019	December 31, 2018
Main Street 1549	$ 32,255	$ 34,183
Pancontinental Namibia	-	-
Total Investment	$ 32,255	$ 34,183

i) Main Street 1549:

Africa Energy holds 49% of the common shares of Main Street 1549, a private South African entity. Main Street 1549 holds a 10% participating interest in the Exploration Right for Block 11B/12B offshore the Republic of South Africa.

The Company has certain contingent payments due to Total and CNRI at various milestones associated with commercialization of hydrocarbons in Block 11B/12B. Main Street 1549 has assessed the likelihood and timing of future exploration expenditures and has accrued the full carry obligation for the 3D seismic and exploration and appraisal well obligations ($10.0 million, $4.9 million net to the Company) related to the above contingent consideration. Main Street 1549 has not accrued any material obligations related to a commercial discovery bonus.

At December 31, 2019, Main Street 1549 had cash of $17.8 million (gross) and negative working capital of $1.6 million (gross). Current liabilities included a $5.0 million (gross) obligation to fund Total's and CNRI's portion of the 3D seismic costs and $5.0 million (gross) of Total's and CNRI's portion of the drilling costs for the next exploration well.

The investment in Main Street 1549 is accounted for using the equity method as the Company holds 49% of the voting shares. During the year ended December 31, 2019, the Company recognized a gain from its investment in Main Street 1549 of $0.1 million (loss of $0.1 million for the year ended December 31, 2018). During the year ended December 31, 2019, the Company received $2.0 million from Main Street 1549 related to the recoupment of Value Added Tax paid to the South African government on the farmin transactions with Total and CNRI. During the year ended December 31, 2018, the Company advanced $33.8 million to cover Block 11B/12B farmin closing costs and future exploration expenditures.

ii) Pancontinental Namibia:

During the year ended December 31, 2019, the Company received $0.1 million from Pancontinental Namibia which was accounted for as a recovery in the statement of profit and loss. During the year ended December 31, 2018, the Company impaired the full amount of the investment in Pancontinental Namibia subsequent to performing an analysis of the Cormorant-1 well results. The joint venture partners on PEL 37 have fulfilled the obligations of the current exploration period.

INTANGIBLE EXPLORATION ASSETS

(thousands)	December 31, 2019	December 31, 2018
Intangible exploration assets	$ 7,024	$ 6,820

During the year ended December 31, 2019, the Company capitalized $0.2 million (year ended December 31, 2018, $0.1 million) of intangible exploration expenditures of which $0.05 million of general and administrative expenses related to Block 2B (year ended December 31, 2018, $0.04 million).

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2019, the Company had cash of $2.4 million and working capital of $2.1 million compared to cash of $3.0 million and working capital of $3.2 million at December 31, 2018.

In addition, Main Street 1549, an entity owned 49% by Africa Energy, held $17.8 million (gross) cash with negative working capital of $1.6 million (gross) at December 31, 2019.

On February 5, 2020, the Company completed a private placement issuing an aggregate of 104,652,174 common shares at a price of SEK 2.30 (approximately CAD $0.32) per share for gross proceeds of $25.0 million.

The Company's working capital position may not provide it with sufficient capital resources to execute future potential exploration, appraisal and development expenditure plans. To finance its future acquisition, exploration, development and operating costs, Africa Energy may require additional 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 when needed 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, 2019 was $1.6 million compared to $1.1 million for the year ended December 31, 2018. During December 31, 2019, 13.7 million stock options were granted to directors, officers and employees of the Company, of which one-third vested immediately, compared to 18.2 million stock options granted during the year ended December 31, 2018, of which one-third vested immediately. The increase in stock-based compensation expense can be mainly attributed to the increase in stock options vested during the year ended December 31, 2019 compared to the same period in 2018.

RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH AFRICA OIL CORP ("AOC"):

At December 31, 2019, AOC owned 34.5% of the common shares of Africa Energy. During February 2020, AOC invested $5.0 million in a private placement to acquire 20,930,000 common shares in Africa Energy. Subsequent to the private placement, AOC's ownership interest in Africa Energy was 32.6%.

Under the terms of the General Service Agreement between AOC and the Company for the provision of management and administrative services, AOC invoiced the Company $0.1 million during the year ended December 31, 2019 (2018, $0.1 million). At December 31, 2019, the outstanding balance payable to AOC was $ nil (at December 31, 2018, $ nil). The service fee charged to the Company by AOC is for the provision of administrative services and is intended to cover the administrative and salary costs paid by AOC on behalf of Africa Energy. The service fee is recognized as part of consulting fees.

Under the terms of a Consulting Services Agreement, effective March 1, 2019, between AOC and the Company for the provision of new venture consulting services, the Company invoiced AOC $0.5 million during the year ended December 31, 2019 ($ nil for year ended December 31, 2018). At December 31, 2019, the outstanding balance receivable from AOC was $ nil (at December 31, 2018, $ nil). The consulting fee charged to AOC by the Company is intended to cover the costs of the Company's employees who are providing AOC with new venture services. The consulting fee is recognized as a reduction in salaries and benefits expense.

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 and the Vice President of Exploration.

Directors' fees include Board and Committee Chair retainers. Management's short-term wages and benefits include salary, benefits, bonuses and any other 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, 2019**		**December 31, 2018**
Directors' fees	$	114	$	114
Directors' share-based compensation		268		170
Management's short-term wages, bonuses and benefits		1,210		822
Management's share-based compensation		767		524
	$	2,359	$	1,630

COMMITMENTS AND CONTINGENCIES

BLOCK 2B, REPUBLIC OF SOUTH AFRICA

Under the terms of the Block 2B Exploration Right, the Company and its partner have fulfilled the obligations of the Second Renewal Period, which was set to expire on February 20, 2020. Prior to expiry, the Block 2B joint venture partnership applied for entry into the Third Renewal Period which is the last period under the Block 2B Exploration Right. The Company has proposed to include an obligation to drill a well in the Third Renewal Period, which is for a period of two years from the date the application is approved by the South African Government.

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 to pay up to $1.5 million in additional contingent cash and/or shares of Africa Energy, at the option of the Company, if certain milestones associated with the commercialization of Block 2B are achieved.

At December 31, 2019, management has assessed the likelihood and timing of future drilling and has not accrued any significant obligations related to the above contingent consideration.

Under the farm-in 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.

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 this MD&A:

Common shares outstanding	789,384,935
Outstanding share purchase options	44,118,333
Full dilution impact on common shares outstanding	833,503,268

Subsequent to the end of the year, the Company issued 104,652,174 common shares in respect to the private placement completed on February 5, 2020 and 515,834 share purchase options were exercised.

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, 2019.

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 relate 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 that 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 considered, 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.

EQUITY INVESTMENTS

Investments in associates are initially recorded at cost. The Company assesses investments in associates for impairment whenever changes in circumstances or events indicate that the carrying value may not be recoverable.

CONTINGENT CONSIDERATION

The Company estimates the value of contingent consideration by preparing an assessment of the likelihood and timing of future drilling obligations. The assessment may include probabilities assigned by Management. Management will review and revise the valuation of contingent consideration as more information becomes available and future plans become more certain.

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

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2019 and have been applied in preparing these financial statements.

IFRS 16: LEASES

Effective January 1, 2019, the Company adopted IFRS 16 Leases. The Company has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Therefore, the comparative information in the Company's consolidated balance sheet, consolidated statements of net loss and comprehensive loss, equity attributable to common shareholders and cash flows have not been restated.

The Company has elected to use the following practical expedients permitted under the standard:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Account for leases with a remaining term of less than twelve months as short-term leases;
- Account for leases with a low dollar value (less than $5 thousand) as an expense; and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

The Company did not identify any leases on adoption of IFRS 16 Leases. Subsequent to the date of transition, the Company entered into a new office lease.

In applying IFRS 16, the Company has applied the practical expedient identified in the standard in which short-term leases and leases of low-value assets are not required to be recognized on the balance sheet and lease payments are instead recognized as an operating expense in the consolidated statements of net less and comprehensive loss as incurred.

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 March 24, 2020 on Sedar (www.sedar.com) for further risk factor disclosures.

INTERNATIONAL OPERATIONS

Oil and gas exploration, development and production activities in 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 to laws and regulations, 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 the Company's business, prospects and results of operations. In addition, if legal disputes arise related to oil and gas concessions acquired by the Company, the Company could be subject to the jurisdiction of courts other than those of

Canada. The Company's recourse may be very limited in the event of a breach by a government or government authority of an agreement governing a concession in which the Company acquires an interest. The Company may require licenses or permits from various governmental authorities to carry out future exploration, development and production activities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits when required. To mitigate some of this risk, the Company focuses on operations in stable countries with good commercial terms.

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.

DIFFERENT LEGAL SYSTEM AND LITIGATION

The legal system within the countries in which the Company operates 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 and Namibia. 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 were to 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 and 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's business, assets, financial conditions and its operations.

RISKS INHERENT IN OIL AND GAS EXPLORATION AND DEVELOPMENT

Oil and gas operations involve many inherent risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that expenditures made on future exploration by the Company will result in discoveries of oil or natural gas in commercial quantities or that commercial quantities of oil and natural gas will be discovered or acquired by the Company. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

The Company's business is subject to all of the risks and hazards inherent in businesses involved in the exploration for, and the acquisition, development, production and marketing of, oil and natural gas, many of which cannot be overcome even with a combination of experience, 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, the Company may require financing from external sources, including from the issuance of new shares, issuance of debt or execution of working interest farm-out agreements. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to the Company. If additional financing is raised through the issuance of equity or convertible debt securities, control of the Company may change and the interests of shareholders in the net assets of the Company may be diluted. If unable to secure financing on acceptable terms, the Company may have to cancel or postpone certain of its planned exploration and development activities which may ultimately lead to the Company's inability to fulfil the minimum work obligations under the terms of its various exploration agreements. Availability of capital will also directly impact the Company's ability to take advantage of acquisition opportunities.

SHARED OWNERSHIP AND DEPENDECY ON PARTNERS

The Company's operations may, to varying degrees, be conducted together with one or more partners through contractual arrangements. In such instances, the Company may be dependent on, or affected by, the due performance of its partners. If a partner fails to perform, the Company may, among other things, risk losing rights or revenues or incur additional obligations or costs in order to itself perform in place of its partners. The Company and its partners may also, from time to time, have different opinions on how to conduct certain operations or on what their respective rights and obligations are under a certain agreement. If a dispute were to arise with one or more partners relating to a project, such dispute may have significant negative effects on the Company's operations relating to such project.

Main Street 1549, an entity held 49% by the Company, has financial obligations in respect of Block 11B/12B. In the event that the shareholders of Main Street 1549 cannot fund obligations due in the future, the Company may, among other things, risk losing its effective interest in Block 11B/12B.

Pancontinental Namibia, an entity held one-third by the Company, has financial obligations in respect of PEL 37. In the event that the shareholders of Pancontinental Namibia cannot fund obligations in the future, as required by the PEL 37 joint operating agreement, the Company may, among other things, risk losing its effective interest in PEL 37.

In respect to the Company's participating interest in Block 2B, Block 11B/12B and PEL 37, the Company is reliant on third parties, including its joint venture partners, to fund their obliged proportion of expenditures. In the event that the joint venture partners cannot fund obligations in the future, as required by the applicable joint operating agreements and farmout agreements, the Company may, among other things, risk losing its participating interest and risk not completing on the Block 2B farmout agreements.

RISKS RELATING TO CONCESSIONS, LICENSES AND CONTRACTS

The Company's operations are based on a relatively small number of concession agreements, licenses and contracts. The rights and obligations under such concessions, licenses and contracts may be subject to interpretation and could also be affected by, among other things, matters outside the control of the Company. In case of a dispute, it cannot be certain that the view of the Company would prevail or that the Company otherwise could effectively enforce its rights which, in turn, could have significantly negative effects on the Company. In addition, if the Company or any of its partners were deemed not to have complied with their duties or obligations under a concession, license or contract, the Company's rights under such concessions, licenses or contracts may be relinquished in whole or in part.

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 and the Mineral and Petroleum Resources Development Act, 2002, the primary legislation governing the upstream hydrocarbons sector in South Africa (the "MPRDA"). The Liquid Fuels Charter requires the holder of certain exploration rights and licences 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 may be subject to change and interpretation, which may impact the Company's holdings in South Africa. In addition, the MPRDA may be replaced by a new bill, the Upstream Petroleum Resources Development Bill, to govern the extraction and production of hydrocarbon resources in South Africa ("UPRDB"). The UPRDB was issued in draft form on December 24, 2019, and proposes, among other things, to increase the State back-in right from 10% to 20%. The draft bill is still subject to discussion, and the final terms are uncertain. If amendments are made to the fiscal parameters as well as the general administration right/concessions in the current MPRDA, this may impact the Company's holdings in South Africa.

Main Street 1549 was certified as a Black Empowered Entity at the date it closed its farmin agreements with each of Total and CNRI to acquire an aggregate 10% participating interest in the Block 11B/12B Exploration Right.

CLIMATE CHANGE LEGISLATION

Climate change continues to be a global challenge. Cities and countries are increasingly seeking to hold companies financially responsible for changes in climate and the global effects of climate change. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place in order to promote the reduction of greenhouse gas emissions. The petroleum industry faces scrutiny from individuals and governments, worldwide, that the use of fossil fuels to meet the world's energy demands contributes to the rise of greenhouse gas emissions in the world's atmosphere.

Implementation of strategies by any level of government within the countries in which the Company operates, and whether to meet international agreed limits, or as otherwise determined, for reducing greenhouse gases and to address climate change could have a material impact on the operations and financial condition of the Company. In addition, concerns about climate change have resulted in a number of environmental activists and members of the public opposing the continued exploitation and development of fossil fuels. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Company and its operations and financial condition.

ENVIRONMENTAL REGULATION

The oil and natural gas industry is subject to environmental regulation pursuant to the local, provincial (or state) and federal legislation, as applicable, within each of the Company's countries of operation. A breach of such legislation may result in the imposition of fines or issuance of clean up orders in respect of the Company or the oil and gas assets, some of which may be material. Furthermore, management of the Company believes the political climate appears to favour new programs for environmental laws and regulation, particularly in relation to the reduction of emissions or emissions intensity, and there is a risk that any such programs, laws or regulations, if proposed and enacted, will contain emission reduction targets which the Company cannot meet, and financial penalties or charges could be incurred as a result of the failure to meet such targets.

Drilling for and production, handling, transporting and disposing of oil and gas and petroleum by-products are subject to extensive regulation under national and local environmental laws. Environmental regulations may impose, among other things, restrictions, liabilities and obligations in connection with water and air pollution control, waste management, permitting requirements and restrictions on operations in environmentally sensitive areas. Environmental protection requirements have not, to date, had a significant effect on the capital expenditures, results of operations and competitive position of the Company. However, environmental regulations are expected to become more stringent in the future and costs associated with compliance are expected to increase. Any penalties or other sanctions imposed on the Company for non-compliance with environmental regulations could have a material adverse effect on the Company's business, prospects and results of operations.

PRICES, MARKETS AND MARKETING OF CRUDE OIL AND NATURAL GAS

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of the Company. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could have an adverse effect on the Company's business and prospects.

GLOBAL HEALTH EMERGENCY

The demand for oil and natural gas may be affected by global health emergencies, including, coronavirus (2019-nCoV), if prolonged. Travel restrictions as a result of containment efforts could have a negative impact on the demand for oil and oil-based products, oil prices, jet fuel consumption, and global economic growth.

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 the Company's credit exposure relates to amounts due from its joint venture partners. The risk of the Company's joint venture partners defaulting on their obligations per their respective joint operating and farmout agreements is mitigated as there are contractual provisions allowing the Company to default joint venture partners who are non-performing and reacquire any previous farmed out working interests.

NEXT EARNINGS REPORT RELEASE

The Company plans to report its results for the three months ended March 31, 2020 on May 6, 2020.

FORWARD LOOKING STATEMENTS

Certain statements in this document constitute forward-looking information or forward-looking statements under applicable securities law (collectively, "forward-looking statements"). Forward-looking statements are statements that relate to future events, including the Company's future performance, opportunities or business prospects. Any statements that express or involve discussions with respect to expectations, beliefs, projections, plans, future events or performance (often but not always identified by words such as "believes", "seeks", "anticipates", "expects", "estimates", "pending", "intends", "plans", "will", "would have" or similar words suggesting future outcomes), are not statements of historical fact and may be forward-looking statements.

By their nature, forward-looking statements involve assumptions, inherent risks and uncertainties, many of which are difficult to predict and are usually beyond the control of management that could cause actual results to be materially different from those expressed by these forward-looking statements. 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.

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

- Expected closing dates for the completion of proposed transactions;
- Planned exploration, appraisal and development activity including both expected drilling and geological and geophysical related activities;
- Proposed development plans;
- Future development costs and the funding thereof;
- Expected funding and development costs;
- Anticipated future financing requirements;
- Future sources of funding for the Company's capital program;

- Future capital expenditures and their allocation to exploration and development activities;
- Expected operating costs;
- Future sources of liquidity, cash flows and their uses;
- Availability of potential farmout partners;
- Government or other regulatory consent for exploration, development, farmout, or acquisition activities;
- Future production levels;
- Future crude oil, natural gas or chemical prices;
- Future earnings;
- Future asset acquisitions or dispositions;
- Future debt levels;
- Availability of committed credit facilities;
- Possible commerciality;
- Development plans or capacity expansions;
- Future ability to execute dispositions of assets or businesses;
- Future drilling of new wells;
- Interpretation of drill results and other technical data;
- Timing of completion of drilling programs;
- Ultimate recoverability of current and long-term assets;
- Ultimate recoverability of reserves or resources;
- The tax and royalty regime in the countries where the Company operates;
- Estimates on a per share basis;
- Future foreign currency exchange rates;
- Future market interest rates;
- Future expenditures and future allowances relating to environmental matters;
- Dates by which certain areas will be explored or developed or will come on stream or reach expected operating capacity;
- The Company's ability to comply with future legislation or regulations;
- Relations with local communities;
- Future staffing levels or requirements; and
- Changes in any of the foregoing.

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

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

- Market prices for oil and gas and chemical products;
- Changes in oil prices, results of exploration, appraisal and development activities, uninsured risks, regulatory changes, defects in title, availability of material and equipment and timelines of government or other regulatory approvals;
- Changes in the social climate in the regions in which the Company operates;
- Health, safety and environmental risks;
- Climate change legislation and regulation changes;

- The Company's 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;
- Short term well test results on exploration and appraisal wells do not necessarily indicate the long-term performance or ultimate recovery that may be expected from a well;
- Pipeline or delivery constraints;
- Volatility in energy trading markets;
- Incorrect assessments of value when making acquisitions;
- Foreign-currency exchange rates;
- Economic conditions in the countries and regions in which the Company carries on business;
- Governmental actions, including changes to taxes or royalties, and changes in environmental and other laws and regulations;
- Renegotiations of contracts;
- Results of litigation, arbitration or regulatory proceedings;
- Political uncertainty, including actions by terrorists, insurgent or other groups, or other armed conflict; and
- Internal conflicts within states or regions.

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

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

Independent auditor's report

To the Shareholders of Africa Energy Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Africa Energy Corp. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of net loss and comprehensive loss for the years then ended;
- the consolidated statements of equity attributable to common shareholders for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

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

Other information

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

PricewaterhouseCoopers LLP
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 24, 2020

AFRICA ENERGY CORP.

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

	Note		December 31, 2019		December 31, 2018
ASSETS					
Current assets					
Cash and cash equivalents		$	2,408	$	3,009
Accounts receivable			63		64
Prepaid expenses			84		202
			2,555		3,275
Long-term assets					
Investment in associates	5		32,255		34,183
Property and equipment	6		74		22
Intangible exploration assets	7		7,024		6,820
			39,353		41,025
Total assets		$	41,908	$	44,300
LIABILITIES AND EQUITY ATTRIBUTABLE TO COMMON SHAREHOLDERS					
Current liabilities					
Accounts payable and accrued liabilities		$	413	$	78
Lease obligations	19		31		-
			444		78
Long-term liabilities					
Lease obligations	19		20		-
			20		-
Total liabilities			464		78
Equity attributable to common shareholders					
Share capital	8		152,649		152,481
Contributed surplus	9		7,019		5,447
Deficit			(118,224)		(113,706)
Total equity attributable to common shareholders			41,444		44,222
Total liabilities and equity attributable to common shareholders		$	41,908	$	44,300
Commitments and contingencies	18				
Subsequent events	21				

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

Approved on behalf of the Board:

"IAN GIBBS"

IAN GIBBS, DIRECTOR

"ASHLEY HEPPENSTALL"

ASHLEY HEPPENSTALL, DIRECTOR

AFRICA ENERGY CORP.

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

For the years ended	**Note**	**December 31, 2019**	**December 31, 2018**
Operating expenses			
Salaries and benefits	13	$ 2,001	$ 2,245
Stock-based compensation	9	1,643	1,093
Travel		204	252
Consulting fees	13	293	478
Office and general		352	486
Depreciation	6	16	20
Gain on disposal of property and equipment		-	(23)
Professional fees		217	344
Stock exchange and filing fees		148	328
Writedown/(recovery) of investment	5	(133)	8,202
Share of (gain)/loss from equity investments	5	(119)	180
		4,622	13,605
Finance expense	12	-	38
Finance income	12	(104)	(558)
Net loss and comprehensive loss attributable to common shareholders		(4,518)	(13,085)
Net loss per share	15		
Basic		$ (0.01)	$ (0.02)
Diluted		$ (0.01)	$ (0.02)
Weighted average number of shares outstanding for the purpose of calculating earnings per share	15		
Basic		683,877,674	560,005,956
Diluted		683,877,674	560,005,956

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

AFRICA ENERGY CORP.

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

	Note	December 31, 2019	December 31, 2018
Share capital:	8(b)		
Balance, beginning of the year		$ 152,481	$ 108,246
Private placement, net of issue costs		-	43,896
Exercise of options		168	339
Balance, end of the year		152,649	152,481
Contributed surplus:	9		
Balance, beginning of the year		$ 5,447	$ 4,497
Excercise of options		(71)	(143)
Stock-based compensation		1,643	1,093
Balance, end of the year		7,019	5,447
Deficit:			
Balance, beginning of the year		$ (113,706)	$ (100,621)
Net loss for the year		(4,518)	(13,085)
Balance, end of the year		(118,224)	(113,706)
Equity attributable to common shareholders		$ 41,444	$ 44,222

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

AFRICA ENERGY CORP.

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

For the years ended		**December 31, 2019**	**December 31, 2018**
Cash flows provided by (used in):	**Note**		
Operations:			
Net loss for the year		$ (4,518)	$ (13,085)
Items not affecting cash:			
Stock-based compensation	9	1,643	1,093
Depreciation		16	20
Gain on disposal of property and equipment	6	-	(23)
Interest on lease obligations	19	2	-
Share of (gain)/loss from equity investments	5	(119)	180
Unrealized foreign exchange (gain)/loss		(25)	38
Writedown/(recovery) of investment	5	(133)	8,202
Changes in non-cash operating working capital	20	381	(713)
Net cash used in operating activities		(2,753)	(4,288)
Investing:			
Property and equipment expenditures	6	(5)	(3)
Proceeds from disposition of property and equipment	6	-	33
Intangible exploration expenditures	7	(204)	(142)
Net investment in associates	5	2,180	(35,298)
Changes in non-cash investing working capital	20	73	(4,479)
Net cash provided by/(used in) investing activities		2,044	(39,889)
Financing:			
Common shares issued	8(b)	97	45,196
Share issuance costs	8	-	(1,104)
Payment of lease obligations	19	(14)	-
Net cash provided by financing activities		83	44,092
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		25	(38)
Decrease in cash and cash equivalents		(601)	(123)
Cash and cash equivalents, beginning of the year		$ 3,009	$ 3,132
Cash and cash equivalents, end of the year		$ 2,408	$ 3,009
Supplementary information:			
Interest paid		Nil	Nil
Taxes paid		Nil	Nil

The notes are an integral part of the consolidated 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 the issued and outstanding shares of the subsidiaries holding AOC's interests in certain oil and gas projects. The Company's registered address is Suite 2500, 666 Burrard Street, Vancouver, BC, V6C 2X8.

Africa Energy is an exploration-stage enterprise that currently has no proved reserves. In 2015, the Company decided to take advantage of the downturn in oil prices and aggressively pursue exploration assets in Africa. In October 2016, the Company acquired a 90% participating interest in the Exploration Right for Block 2B offshore the Republic of South Africa ("Block 2B"). In September 2017, the Company acquired one-third of the shares in a wholly-owned subsidiary of Pancontinental Oil and Gas N.L. ("Pancontinental") that holds a 30% participating interest in Petroleum Exploration License 37 offshore the Republic of Namibia ("PEL 37"). In December 2018, Main Street 1549 Proprietary Limited ("Main Street 1549"), an entity owned 49% by the Company, closed farmin agreements to acquire a 10% participating interest in the Exploration Right for Block 11B/12B offshore the Republic of South Africa ("Block 11B/12B") resulting in the Company holding an effective 4.9% interest.

Oil and gas exploration, development and production activities in emerging markets are subject to significant uncertainties that 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 to laws and regulations, a change in taxation policies, and the imposition of currency controls, in addition to the risks associated with exploration activities and dependence on partners and shared ownership. These uncertainties, all of which are beyond the Company's control, could have a material adverse effect on Africa Energy's business, prospects and results of operations. In addition, if legal disputes arise related to oil and gas concessions acquired by the Company, Africa Energy could be subject to the jurisdiction of courts other than those of Canada. The Company's recourse may be very limited in the event of a breach by a government or government authority of an agreement governing a concession in which Africa Energy has or may acquire an interest. The Company may require licenses or permits from various governmental authorities to carry out future exploration, development and production activities. There can be no assurance that Africa Energy will be able to obtain all necessary licenses and permits when required.

2) Basis of preparation:

a) Statement of compliance:

The Company prepares 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 March 24, 2020, the date the Board of Directors approved the statements.

b) Basis of measurement:

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

c) Functional and presentation currency:

These consolidated financial statements are presented in United States (US) dollars. The functional currency of all the Company's individual entities (refer to Note 16) is US dollars, which represents the currency of the primary economic environment in which the entities operate.

d) Use of estimates and judgments:

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

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 7).

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 9).

iii) Valuation of investments:

Investments in associates are initially recorded at cost. The Company assesses investments in associates for impairment whenever changes in circumstances or events indicate that the carrying value may not be recoverable (see note 5).

iv) Consolidation of entities:

When assessing control over a subsidiary, the Company is required to consider the nature of its relationship with the subsidiary and whether strategic and operating decisions made by the subsidiary are made independently without the significant influence or control of the Company. Factors considered when assessing control include share ownership, board composition and management involvement in the business. The determination of whether strategic and operating decisions made by the Company's subsidiaries are made independently without the significant influence or control of the Company requires judgment (see notes 5 and 16).

v) Deferred tax asset:

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

vi) Leases:

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

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) Equity method:

Investments in associates are accounted for using the equity method where there is significant influence or joint control through a joint venture. Significant influence occurs when an entity holds, directly or indirectly, 20 per cent or more of the voting power of the investee. A joint venture is where the parties to the joint arrangement have rights to the net assets of the arrangement. Investments of this nature are recorded at original cost. The investment is adjusted periodically for the Company's share of the profit or loss of the investment after the date of acquisition. Distributions received reduce the carrying amount of the investment.

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

c) 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.

d) 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 that 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.

e) Depreciation:

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.

f) 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.

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

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

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

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

g) Stock-based compensation:

The Company has a stock option plan as described in note 9. 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.

h) 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.

i) 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.

j) 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.

k) 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 at amortized cost 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.

l) 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. The Company does not have any decommissioning obligations.

4) New accounting standards:

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2019 and have been applied in preparing these financial statements.

IFRS 16: Leases

Effective January 1, 2019, the Company adopted IFRS 16 Leases. The Company has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Therefore, the comparative information in the Company's consolidated balance sheet, consolidated statements of net loss and comprehensive loss, equity attributable to common shareholders and cash flows have not been restated.

The Company has elected to use the following practical expedients permitted under the standard:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Account for leases with a remaining term of less than twelve months as short-term leases;
- Account for leases with a low dollar value (less than $5 thousand) as an expense; and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

The Company did not identify any leases on adoption of IFRS 16 Leases. Subsequent to the date of transition, the Company entered into a new lease.

Leases are recognized as part of property and equipment and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments. The leases have been measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates at August 1, 2019. The Incremental borrowing rate as at August 1, 2019 for the Company's office lease in South Africa is 10.25%. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics.

Lease payments are allocated between the liability and finance costs. The finance cost is charged to net earnings over the lease term.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the asset or is recorded in the consolidated statements of net loss and comprehensive loss if the carrying amount of the asset has been reduced to zero.

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

The asset is initially measured at cost, which comprises the initial amount of the lease liability, and is depreciated, on a straight-line basis, over the lease term. The asset may be adjusted for certain remeasurements of the lease liability and impairment losses.

In applying IFRS 16, the Company has applied the practical expedient identified in the standard in which short-term leases and leases of low-value assets are not required to be recognized on the balance sheet and lease payments are instead recognized as an operating expense in the consolidated statements of net less and comprehensive loss as incurred.

The difference between the operating lease commitments disclosed in the financial statements dated December 31, 2018 and the date of initial application, January 1, 2019, is as follows:

Lease Obligations	
Operating lease commitments at December 31, 2018, as previously reported	18
Less, exemption for short term leases	(18)
Lease liabilities recognized at January 1, 2019	-

5) Investment in associates and joint ventures:

The following is a summary of the Company's investment in associates and joint ventures:

	December 31, 2019	December 31, 2018
Main Street 1549	$ 32,255	$ 34,183
Pancontinental Namibia Pty Ltd. ("Pancontinental Namibia")	-	-
Total Investment	$ 32,255	$ 34,183

i) Main Street 1549:

	December 31, 2019	December 31, 2018
Balance, beginning of the year	$ 34,183	$ 490
Funds contributed to Main Street 1549	-	33,834
Funds received from Main Street 1549	(2,047)	-
Share of gain/(loss) from equity investment	119	(141)
Balance, end of the year	$ 32,255	$ 34,183

Africa Energy holds 49% of the common shares of Main Street 1549, a private South African entity. In November 2017, Main Street 1549 entered into farmin agreements with each of Total E&P South Africa BV ("Total"), a wholly-owned subsidiary of Total SA, and CNR International (South Africa) Limited ("CNRI"), a wholly-owned subsidiary of Canadian Natural Resources Limited, to acquire an aggregate 10% participating interest in the Exploration Right for Block 11B/12B offshore the Republic of South Africa. Main Street 1549 paid a deposit of $1.0 million at signature ($0.49 million net to the Company). In December 2018, upon receiving government approval, Main Street 1549 closed the farmin transactions, at which point Africa Energy invested an aggregate of $33.8 million in Main Street 1549. The funding contributed by Africa Energy was used to pay the Company's portion of closing costs for the farmin transactions ($16.5 million net to the Company), as well as the Company's portion of future exploration expenditures on Block 11B/12B ($16.2 million net to the Company) and the Company's portion of an environmental guarantee in favour of the

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

Petroleum Agency of South Africa ($1.0 million net to the Company). The closing payment to Total and CNRI included reimbursement for past exploration expenditures, interim period costs, an agreed carry amount for the Brulpadda-1AX well costs and the applicable Value Added Tax ($2.2 million net to the Company), which was recovered in February 2019.

Due to the discovery at the Brulpadda-1AX well, Main Street 1549 is obligated to fund $5.0 million ($2.5 million net to the Company) of Total's and CNRI's portion of the 3D seismic costs and $5.0 million ($2.5 million net to the Company) of Total's and CNRI's portion of the drilling costs for the next exploration or appraisal well.

In the event of a commercial discovery and granting of a production right, Main Street 1549 will be obligated to fund a discovery bonus. If the commercial discovery is oil, Main Street 1549 will be obligated to pay Total and CNRI up to $90.0 million ($44.1 million net to the Company) depending on the amount of reserves at that time. If the commercial discovery is gas, Main Street 1549 will be obligated to pay Total and CNRI up to $24.0 million ($11.8 million net to the Company) depending on the amount of reserves at that time.

At December 31, 2019, Main Street 1549 has assessed the likelihood and timing of future exploration expenditures and has accrued the required 3D seismic and exploration and appraisal well obligations related to the above contingent consideration. Main Street 1549 has not accrued any material obligations related to the commercial discovery bonus.

The investment in Main Street 1549 is accounted for using the equity method as the Company holds 49% of the voting shares. During the year ended December 31, 2019, the Company recognized a gain from its investment in Main Street 1549 of $0.1 million (loss of $0.1 million for the year ended December 31, 2018). During the year ended December 31, 2019, the Company advanced $ nil to cover Block 11B/12B farmin closing costs and future exploration expenditures (December 31, 2018, $33.8 million).

The Company has determined that the investment in Main Street 1549 is not impaired.

The following is a financial summary of Main Street 1549:

		December 31, 2019		December 31, 2018
Cash and cash equivalents included in current assets	$	17,752	$	357
Other current assets		2,004		39,425
Non-current assets		67,452		36,512
Current liabilities		(21,381)		(6,532)
Net assets of Main Street 1549	$	65,827	$	69,762
Percentage of ownership		49%		49%
Proportionate share of Main Street 1549's net assets	$	32,255	$	34,183

For the years ended		December 31, 2019		December 31, 2018
Operating expense	$	(41)	$	(138)
Finance income/(expense)		284		(149)
Net gain/(loss) and comprehensive gain/(loss)	$	243	$	(287)
Percentage of ownership		49%		49%
Proportionate share of Main Street 1549's net gain	$	119	$	(141)

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

At December 31, 2019, Main Street 1549 had cash of $17.8 million (gross) with negative working capital of $1.6 million (gross). Current liabilities included a $5.0 million (gross) obligation to fund Total's and CNRI's portion of the 3D seismic costs and $5.0 million (gross) of Total's and CNRI's portion of the drilling costs for the next exploration well.

ii) Pancontinental Namibia:

		December 31, 2019		December 31, 2018
Balance, beginning of the year	$	-	$	6,777
Acquisition of shares		-		5,500
Contingent consideration accrued		-		(4,500)
Funds contributed to Pancontinental Namibia		-		464
Funds received from Pancontinental Namibia		(133)		-
Share of loss from equity investment		-		(39)
Recovery/(writedown) of investment		133		(8,202)
Balance, end of the year	$	-	$	-

During the year ended December 31, 2019, the Company received a one-time cash repayment of $0.1 million which was accounted for as a recovery in the statement of profit and loss. During the year ended December 31, 2018, the Company impaired the full amount of the investment in Pancontinental Namibia subsequent to performing a full analysis of the Cormorant-1 well results. The joint venture partners on PEL 37 have fulfilled the obligations of the current exploration period.

6) Property and equipment:

		December 31, 2019		December 31, 2018
Cost, beginning of the year	$	165	$	196
Additions		5		3
Increase in right-of-use assets		63		-
Disposal		-		(34)
Cost, end of the year		233		165
Accumulated depreciation, beginning of the year		(143)		(147)
Depreciation		(16)		(20)
Disposal		-		24
Accumulated depreciation, end of the year		(159)		(143)
Net carrying amount, beginning of the year	$	22	$	49
Net carrying amount, end of the year	$	74	$	22

As at December 31, 2019, the Company has recorded $0.07 million of property and equipment (December 31, 2018 - $0.02 million) consisting primarily of right-of-use assets, which is defined as the lessee's right to use an asset over the life of a lease. The Company depreciates its right-of-use assets over the term of the contract. The Company depreciates its property and equipment, other than right of use assets, on a straight-line basis over the useful life of the assets (one to three years). Included in depreciation is $0.01 million relating to the Company's right-of-use assets.

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

7) Intangible exploration assets:

	December 31, 2019	December 31, 2018
Net carrying amount, beginning of the year	$ 6,820	$ 6,678
Intangible exploration expenditures	204	142
Net carrying amount, end of the year	$ 7,024	$ 6,820

As at December 31, 2019, $7.0 million of exploration expenditures have been capitalized as intangible exploration assets (December 31, 2018, $6.8 million). These expenditures relate to the acquisition of a 90% participating interest in Block 2B as well as license fees, geological, geophysical and well studies and general and administrative costs related to Block 2B.

During the year ended December 31, 2019, the Company capitalized $0.05 million of general and administrative expenses related to intangible exploration assets (December 31, 2018, $0.04 million).

The Company has determined that as at December 31, 2019, intangible exploration assets are not impaired.

8) Share capital:

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

b) Issued:

		December 31, 2019		December 31, 2018	
	Note	Shares	Amount	Shares	Amount
Balance, beginning of the year		683,356,094	$ 152,481	319,177,135	$ 108,246
Exercise of options	9	860,833	168	1,788,334	339
Private placement, net of issue costs		-	-	362,390,625	43,896
Balance, end of the year		684,216,927	$ 152,649	683,356,094	$ 152,481

On May 4, 2018, the Company completed a private placement issuing an aggregate of 362,390,625 common shares at a price of CAD $0.16 per share for gross proceeds of approximately $45.0 million. A broker's fee of $1.1 million was paid in cash to Pareto Securities AB. In conjunction with the private placement, the Company listed its common shares on Nasdaq First North Stockholm.

9) Share purchase options:

At the Annual General and Special Meeting held on June 13, 2019, the Company's shareholders ratified and approved the Company's stock option plan (the "Plan"). The Plan provides that the aggregate number of incentive stock options issued shall not exceed 10% of the total common shares outstanding, and that the option exercise price will not be below the market trading value of the Company's shares at the time of grant. 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 receive a grant of more than 5% of the Company's total common shares outstanding.

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

Share purchase options outstanding are as follows:

	December 31, 2019		December 31, 2018	
	Number of options	Weighted average exercise price (CAD$)	Number of options	Weighted average exercise price (CAD$)
Outstanding, beginning of the year	31,808,333	0.16	16,095,000	0.14
Granted	13,715,000	0.245	18,185,000	0.165
Expired	(28,333)	0.22	(683,333)	0.17
Exercised	(860,833)	0.15	(1,788,334)	0.14
Balance, end of the year	44,634,167	0.18	31,808,333	0.16

i) During the year ended December 31, 2019, 860,833 stock options were exercised from which $0.07 million in contributed surplus was transferred to share capital. During the year ended December 31, 2018, 1,788,334 stock options were exercised in which $0.1 million in contributed surplus was transferred to share capital.

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, 2019 and 2018 were estimated on the date of grant using the following weighted average assumptions:

	2019	2018
Number of options granted during the year	13,715,000	18,185,000
Fair value of options granted (CAD$)	0.15	0.11
Risk-free interest rate (%)	1.47	1.78
Expected life (years)	3.00	3.00
Expected volatility (%)	94	106
Expected dividend yield	-	-

The following table summarizes information regarding stock options outstanding at December 31, 2019:

Weighted average exercise price (CAD$/share)	Options outstanding	Weighted average remaining contractual life in years
0.17	3,252,500	0.19
0.13	1,350,000	0.62
0.11	1,850,000	1.26
0.125	4,020,000	1.38
0.17	2,500,000	2.51
0.165	17,966,667	3.37
0.245	13,695,000	4.17
0.18	44,634,167	2.99

2,500,000 options granted at CAD$0.17 per share during 2017 cliff vest three years from the date of grant and expire after five years. All remaining options granted vest over a two-year period, with one-third vesting immediately, and expire five years after the grant date.

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

The following table summarizes information regarding stock options exercisable at December 31, 2019:

Weighted average exercise price (CAD$/share)	Options exercisable	Weighted average remaining contractual life in years
0.17	3,252,500	0.19
0.13	1,350,000	0.62
0.11	1,850,000	1.26
0.125	4,020,000	1.38
0.165	11,946,666	3.37
0.245	4,565,000	4.17
0.17	26,984,166	2.55

The Company recognized $1.6 million in stock-based compensation expense for the year ended December 31, 2019 ($1.1 million for the year ended December 31, 2018).

10) 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 that 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, 2019, the Company held $0.2 million of cash in financial institutions 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 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.

ii) Interest rate risk:

As at December 31, 2019, 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.

11) 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 farmout arrangements and revise its capital and operating 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 is minimized while ensuring that interest yields on account balances are appropriate. The 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)

		December 31, 2019		December 31, 2018
Equity	$	41,444	$	44,222
Less: working capital [(1)]		(2,111)		(3,197)
Total capitalization	$	39,333	$	41,025

(1) Working capital is calculated as current assets less current liabilities.

12) Finance income and expense:

Finance income and expense for the years ended December 31, 2019 and 2018 is comprised of the following:

For the years ended		December 31, 2019		December 31, 2018
Interest and other income	$	(79)	$	(558)
Foreign exchange (gain)/loss		(25)		38
Finance expense		-		38
Finance income	$	(104)	$	(558)

13) Related party transactions:

a) Transactions with AOC:

At December 31, 2019, AOC owned 34.5% of the common shares of Africa Energy. During February 2020, AOC invested $5.0 million in a private placement to acquire 20,930,000 common shares in Africa Energy. Subsequent to the private placement, AOC's ownership interest in Africa Energy was 32.6%.

Under the terms of the General Service Agreement between AOC and the Company for the provision of management and administrative services, AOC invoiced the Company $0.1 million during the year ended December 31, 2019 (2018, $0.1 million). At December 31, 2019, the outstanding balance payable to AOC was $ nil (at December 31, 2018, $ nil). The service fee charged to the Company by AOC is for the provision of administrative services and is intended to cover the administrative and salary costs paid by AOC on behalf of Africa Energy. The service fee is recognized as part of consulting fees.

Under the terms of a Consulting Services Agreement, effective March 1, 2019, between AOC and the Company for the provision of new venture consulting services, the Company invoiced AOC $0.5 million during the year ended December 31, 2019 ($ nil for year ended December 31, 2018). At December 31, 2019, the outstanding balance receivable from AOC was $ nil (at December 31, 2018, $ nil). The consulting fee charged to AOC by the Company is intended to cover the costs of the Company's employees who are providing AOC with new venture services. The consulting fee is recognized as a reduction in salaries and benefits expense.

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 and the Vice President of Exploration.

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

Directors' fees include Board and Committee Chair retainers. 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, 2019	December 31, 2018
Directors' fees	$ 114	$ 114
Directors' share-based compensation	268	170
Management's short-term w ages, bonuses and benefits	1,210	822
Management's share-based compensation	767	524
	$ 2,359	$ 1,630

14) Income Taxes:

Substantially all of the differences between actual income tax expense (recovery) of $ nil and the expected federal, Alberta and British Columbia 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, 2019	December 31, 2018
Net loss and comprehensive loss	$ (4,518)	$ (13,085)
Combined federal and provincial statutory income tax rate	26.5%	27.0%
Expected tax recovery	(1,197)	(3,533)
Stock-based compensation	436	295
Loss taxed at a different rate	(23)	(23)
Non-taxable expense items	20	22
Writedown/(recovery) of investment	(35)	2,215
Unrecognized tax losses	799	1,024
Tax recovery	$ -	$ -

The Company has the following un-booked deductible temporary differences at December 31, 2019 and 2018:

	2019	2018
Unbooked deductible temporary differences		
Share issue costs	$ 729	$ 1,050
Unrealized loss on equity investments	8,274	8,393
Non-capital losses carried forward	53,884	51,957
Charitable Donations	403	403
	$ 63,290	$ 61,803

The Company has non-capital losses carry forward of $24.0 million in Canada which begin expiring 2033 and non-capital losses carry forward of $29.9 million in South Africa which relate to the acquisition of Main Street 840. The non-capital losses in South Africa do not expire.

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

15) Net Loss Per Share:

For the years ended	December 31, 2019			December 31, 2018		
		Weighted Average			Weighted Average	
	Net loss	Number of shares	Per share amounts	Net loss	Number of shares	Per share amounts
Basic earnings per share						
Net loss attributable to common shareholders	$ (4,518)	683,877,674	$ (0.01)	$ (13,085)	560,005,956	$ (0.02)
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	$ (4,518)	683,877,674	$ (0.01)	$ (13,085)	560,005,956	$ (0.02)

For the year ended December 31, 2019, 44,634,167 options were anti-dilutive and were not included in the calculation of dilutive loss per share (December 31, 2018, 31,808,333).

16) Subsidiaries:

The Company has the following wholly owned subsidiaries, unless otherwise stated; 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), Main Street 840 (Proprietary) Limited (South Africa), Africa Energy Namibia Corp. (Canada), Pancontinental Namibia Pty Ltd. (Australia, 33.3% owned), and Main Street 1549 (pty) Ltd. (South Africa, 49% owned). All of the Company's subsidiaries are engaged in oil and gas exploration activities.

17) Financial Instruments:

Assets and liabilities at December 31, 2019 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, accounts payable and accrued liabilities and leases payable are assessed on the fair value hierarchy described above. The Company's cash and cash equivalents, receivables and accounts payable and accrued liabilities are classified as Level 2. The Company's investments in associates are classified as Level 3. 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 the short maturity. There were no transfers between levels in the fair value hierarchy in the period.

18) Commitments and Contingencies:

a) PSA and Agreement Commitments

Block 2B

Under the terms of the Block 2B Exploration Right, the Company and its partner have fulfilled the obligations of the Second Renewal Period, which was set to expire on February 20, 2020. Prior to expiry, the Block 2B joint venture partnership applied for entry into the Third Renewal Period which is the last period under the Block 2B Exploration Right. The Company has proposed to include an obligation to drill a well in the Third Renewal Period, which is for a period of two years from the date the application is approved by the South African Government. In accordance with the terms of the Block 2B Exploration Right, the Company is required to relinquish 15% of the current exploration area.

Under the Thombo Share Purchase Agreement, the Company is obligated to the following:

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

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

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

At December 31, 2019, management has assessed the likelihood and timing of future drilling and has not accrued any material obligations related to the above contingent consideration.

Under the farmin agreement with a subsidiary of Crown Energy AB (“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.

Main Street 1549

Refer to note 5(i) for details on commitments.

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

19) Lease Obligations:

The following table details the Company's lease obligations for the year ended December 31, 2019:

Balance, August 1, 2019 on adoption of IFRS 16	-
Additions	63
Interest	2
Repayments	(14)
Balance, December 31, 2019	51
Current portion of lease obligations	31
Non-current portion of lease obligations	20

The maturity analysis of the undiscounted cash payments of the lease liabilities is as follows:

	December 31, 2019
Less than one year	35
Greater than one year	20
Total lease payments	55

The Company's short-term leases and leases of low-value assets amounted to $0.07 million for the year ended December 31, 2019 and is expensed accordingly. The Company's lease obligations consist of rent and parking for its office in Cape Town, South Africa. The Company's lease contract was effective beginning August 1, 2019 for a period of two years but may have extension options as described in Note 2(d) "Use of estimates and judgments". Leases are negotiated on an individual basis and contain a wide range of different terms and conditions.

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, 2019**		**December 31, 2018**
Changes in non-cash working capital				
Accounts receivable	$	1	$	61
Prepaid expenses		118		4
Accounts payable and accrued liabilities		335		(757)
Contingent consideration		-		(4,500)
	$	454	$	(5,192)
Relating to:				
Operating activities	$	381	$	(713)
Investing activities		73		(4,479)
Changes in non-cash working capital	$	454	$	(5,192)

21) Subsequent Events:

a) Private Placement

On February 5, 2020, the Company completed a private placement issuing an aggregate of 104,652,174 common shares at a price of SEK 2.30 (approximately CAD$0.32) per share for gross proceeds of $25.0 million. A broker's fee of approximately $0.9 million was paid in cash to Pareto Securities AB and SpareBank1 Markets AS.

b) Block 2B Farmouts

On February 24, 2020, the Company executed two farmout agreements whereby the Company will transfer an aggregate 62.5% participating interest in the Exploration Right for Block 2B offshore South Africa. Africa Energy will retain a 27.5% participating interest in Block 2B.

Under the terms of a farmout agreement entered into with a subsidiary of Azinam Limited ("Azinam"), a wholly-owned subsidiary of Africa Energy will farmout a 50% participating interest and transfer operatorship in Block 2B to Azinam (the "Azinam Farmout Agreement"). In consideration for the assignment of this interest, Azinam will pay Africa Energy $0.5 million at close and a disproportionate amount of the Gazania-1 exploration well and other joint venture costs on behalf of the Company. Azinam paid a $1.5 million deposit to Africa Energy at signature of the Azinam Farmout Agreement and will place an additional amount into escrow at close to support its obligations under the Azinam Farmout Agreement.

Under the terms of a farmout agreement entered into with a subsidiary of Panoro Energy ASA ("Panoro"), a wholly-owned subsidiary of Africa Energy will farmout a 12.5% participating interest in Block 2B to Panoro. In consideration for the assignment of this interest, Panoro will pay a disproportionate amount of the Gazania-1 exploration well costs on behalf of the Company.

Closing of the two farmout agreements is subject to standard conditions for this type of transaction, including approval of the South African government.