



**AFRICA ENERGY CORP.**

**Report to Shareholders**

**December 31, 2020**

## **AFRICA ENERGY CORP.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**(Amounts expressed in United States dollars unless otherwise indicated)**

**For the years ended December 31, 2020 and 2019**

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, 2020 and 2019.

The financial information in this MD&A is derived from the Company's audited consolidated financial statements that have been prepared in United States ("US") 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, 2021.

Additional information about the Company and its business activities is available on SEDAR at [www.sedar.com](http://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 owns 49% of the common shares and 100% of the Class B shares of Main Street 1549 Proprietary Limited ("Main Street 1549"). In accordance with the Main Street 1549 shareholders agreement ("Main Street 1549 SHA"), the Company has the ability to trigger the sale of the 10% participating interest in Block 11B/12B to a wholly-owned subsidiary of Africa Energy. Main Street 1549 has a 10% participating interest in the Exploration Right for Block 11B/12B offshore South Africa ("Block 11B/12B"). The Company also holds a 90% participating interest in the Exploration Right for Block 2B offshore South Africa ("Block 2B") and an effective 14.6% 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 in Toronto under ticker symbol "AFE" and the Nasdaq First North Growth Market in Stockholm under ticker symbol "AEC". Impact Oil and Gas Limited ("Impact") and Africa Oil Corp. ("AOC") are currently the Company's largest shareholders with 36.5% and 19.9%, respectively, 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 common shares and 100% of the Class B shares of Main Street 1549, which holds a 10% participating interest in Block 11B/12B offshore South Africa (the Block 11B/12B Participating Interest"). The remaining 51% of the common shares of Main Street 1549 are held by Arostyle Investments (RF) (Proprietary) Limited ("Arostyle"). 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 International Upstream LLC and CNR International (South Africa) Limited ("CNRI"), a wholly-owned subsidiary of Canadian Natural Resources Limited, holding 25% and 20%, respectively.

On October 22, 2020, the Company completed two definitive agreements that allow Africa Energy to increase its effective interest in Block 11B/12B offshore South Africa from 4.9% to 10%.

In accordance with the definitive agreement entered into with Impact Oil & Gas Limited ("Impact"), Africa Energy subscribed for all of the Class B shares of Impact Oil & Gas SA Blocks 11B-12B Limited ("Impact 11B/12B") and thereby obtained 99.9% voting control of Impact 11B/12B, whose sole asset is a loan to Arostyle that provides for an indirect financial interest in Main Street 1549 ("Arostyle Loan Agreement"). In addition, Impact completed a subscription agreement with Africa Energy to subscribe for 509,092,771 common shares of the Company, which completed on November 12, 2020. The common shares issued to Impact were subject to resale restrictions that expired on March 13, 2021.

In accordance with the definitive agreement entered into with Arostyle, amendments to the Main Street 1549 SHA provide that Africa Energy fund 100% of the obligations of Main Street 1549 by way of Class B share subscriptions, which provide a risk-adjusted return linked to the proceeds on any future sale of Main Street 1549 or the Block 11B/12B Participating Interest. In addition, the amendments to the Main Street 1549 SHA provide that either Africa Energy or Arostyle has the right to trigger the sale of the 10% participating interest in Block 11B/12B to a wholly-owned subsidiary of Africa Energy ("Arostyle Option"). The Arostyle Option became exercisable by either party after completion of the Luiperd-1X well for an unlimited period of time and will be subject to receiving all required regulatory approvals and joint venture partner consents and waivers. Exercise of the Arostyle Option would result in Arostyle being issued 64,455,916 Africa Energy shares. The Arostyle Option remains unexercised.

On October 28, 2020, the Company announced a significant gas condensate discovery on the Luiperd Prospect on Block 11B/12B. This discovery reconfirms this world-class exploration play with substantial follow-on potential and follows the adjacent play-opening Brulpadda discovery in 2019 that proved a significant new petroleum province in the region.

The Luiperd-1X exploration well was drilled in approximately 1,800 meters of water by the Odfjell Deepsea Stavanger semi-submersible rig to a total depth of about 3,400 meters. The well targeted the hydrocarbons potential in a mid-Cretaceous aged deep marine sequence where fan sandstone systems are developed within combined stratigraphic/structural closure. The well encountered 73 meters of net gas condensate pay over a mid-Cretaceous high-quality reservoir interval and did not encounter the water contact.

The Luiperd-1X well was opened to flow on November 1, 2020. After several tests at different choke settings, the well reached a maximum constrained flowrate through a 58/64" choke of 33 million cubic feet per day of natural gas and 4,320 barrels of condensate per day, an aggregate of approximately 9,820 barrels of oil equivalent per day. The choke configuration could not be increased due to surface equipment limitations. The absolute open flow potential of the well is expected to be significantly higher than the restricted test rates. Due to the success at Luiperd, the joint venture has decided to proceed with development studies and engage with authorities on commercialization of gas rather than drilling another exploration well in this program.

The Luiperd discovery is located on Block 11B/12B in the Outeniqua Basin approximately 175 kilometers off the southern coast of South Africa. The block covers an area of 19,000 square kilometers with water depths ranging from approximately 200 to 1,800 meters. The success at both the Luiperd-1X well and the Brulpadda-1AX well significantly de-risks the remaining Paddavissie Fairway prospects on Block 11B/12B.

In May 2020, the Block 11B/12B joint venture received the fast-track 2D seismic dataset from Shearwater GeoServices Holding AS for the 7,033 linear kilometer 2D seismic program completed earlier in the year on Block 11B/12B. Initial interpretative work has confirmed the Kloofpadda Play Trend, which consists of a number of large and encouraging leads. The Block 11B/12B joint venture received the fully-processed 2D seismic dataset in early September and are currently in the process of finalizing a full prospect analysis for the eastern part of the block.

In June 2020, the Block 11B/12B joint venture received the fast-track 3D seismic dataset from Petroleum Geo-Services ASA ("PGS") for the 2,305 square kilometer 3D seismic program completed earlier in the year on Block 11B/12B. Initial interpretive work has identified a number of additional leads. In September 2020, the Block 11B/12B joint venture received the fully integrated fast track processed 3D dataset. In March 2021, the joint venture partners received the final fully-processed 3D data that integrates the PGS and Polarcus surveys over the Paddavissie Fairway. The quality of the fully-processed 3D data has significantly improved resolution and will be integrated with the drilling and testing results to facilitate the development studies and to mature previously identified leads into prospects within the Paddavissie Fairway.

The joint venture partnership was recently granted approval from the South African Government for entry into the Third Renewal Period for the Block 11B/12B Exploration Right, which is for a period of two years ending September 7, 2022. Prior to the end of the Third Renewal Period, the Company expects that the joint venture partnership will apply for a Production Right on Block 11B/12B.

### **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 3,062 square kilometers off the west coast of South Africa approximately 300 kilometers north of Cape Town with water depths ranging from approximately 50 to 200 meters. Over the main area of interest in the block, the A-J rift graben, water depth ranges from approximately 140 meters to 160 meters. Oil was discovered and tested by Soekor in the A-J1 borehole drilled in 1988.

On February 24, 2020, Africa Energy executed two farmout agreements whereby the Company will transfer operatorship and an aggregate 62.5% participating interest in the Exploration Right for Block 2B. 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 recently been granted approval for entry into Third Renewal Period, which is for a period of two year and will expire on November 16, 2022. The Third Renewal Period includes an obligation to drill a well.

#### **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 43.85% participating interest in PEL 37 offshore the Republic of Namibia. The Company’s effective interest in PEL 37 is therefore 14.6%. PEL 37 is operated by Tullow Namibia Ltd. (“Tullow”), which holds a 51.15% participating interest, with Paragon Oil and Gas (Pty) Ltd. the remaining 5%.

ONGC Videsh Ltd. has withdrawn from PEL 37 joint venture partnership, and Pancontinental Namibia and Tullow agreed to acquire their pro rata interest in PEL 37, increasing their participating interest from 30% and 35%, respectively, to 43.85% and 51.15%, 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 was plugged and abandoned.

Pancontinental Namibia is currently seeking an extension to the Second Renewal Exploration Period which currently expires on March 27, 2021. The PEL 37 joint venture partnership has fulfilled its obligations of the current exploration period.

## **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 fee of approximately \$1.0 million in aggregate was paid in cash to Pareto Securities AB and SpareBank1 Markets AS.

On September 30, 2020, the Company completed a private placement issuing an aggregate of 81,667,000 common shares at a price of SEK 3.00 (approximately CAD\$0.45) per share for gross proceeds of approximately \$27.6 million. A broker fee of approximately \$0.8 million in aggregate was paid in cash to Pareto Securities AB, Arctic Securities AS and Fearnley Securities AS.

On November 12, 2020, the Company issued 509,092,771 common shares to Impact pursuant to the terms of a subscription agreement between the Company and Impact dated August 24, 2020. The common shares issued to Impact were subject to resale restrictions under Canadian securities laws that expired March 13, 2021. For accounting purposes, the shares issued to Impact were valued at CAD\$0.39 per share AS.

## **OUTLOOK**

In 2020, Africa Energy announced the successful drilling and testing results of its second consecutive discovery on Block 11B/12B. The discovery on the Luiperd Prospect reconfirms the Paddavissie Fairway as a world-class exploration play with substantial follow-on potential. Due to the success at Luiperd, the joint venture decided to proceed with development studies and engage with authorities on gas commercialization. We believe the fundamentals are strong for a gas condensate development on Block 11B/12B as South Africa is a large market looking to transition from coal to natural gas and is currently limited to expensive imports.

Management is focused on closing the Block 2B farmouts and procuring a rig for the next exploration well, Gazania-1, which is expected to spud in the third quarter of 2021. Block 2B has significant contingent and prospective resources in shallow water close to shore and includes 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. The Company expects to close the Block 2B farmouts in the second quarter of 2021 whereby the Company will retain a 27.5% interest and be carried through the Gazania-1 well. Closing of the two farmout agreements is subject to standard conditions for this type of transaction, including approval of the South African government.

## **COVID-19 UPDATE**

The During 2020, we witnessed an unprecedented level of market volatility, oil price weakness and a substantial reduction in the world oil demand due to the impact of COVID-19 pandemic. We also saw a robust response by international oil producers led by the group of OPEC+ countries to reduce supply and address the challenge of demand destruction from the pandemic. The oil producers' response removed significant supply to the market, reducing inventories and allowing markets to rebalance. However, with the appearance of several virulent variants of Covid-19, there is no certainty as to the time it will take for business activity and travel to return to normal and for oil demand to recover to the pre-pandemic level.

To date, we have not seen a significant impact on our operations. In an effort to protect the health and safety of employees, the Company has allowed all of its employees to work from home and has restricted all unnecessary travel.

In Block 11B/12B, Total, acting as the operator, monitored COVID-19's impact on operations closely. The recently completed seismic survey and drilling and testing of the Luiperd-1X exploration well as well were not impacted by the current health crises beyond certain delays. Total worked closely with the South African Government Authorities and the drilling contractors during the drilling operations to ensure that the completion of the drilling campaign occurred safely and efficiently.

In Block 2B, the Company expects to complete the farmout agreements in the second quarter of 2021. Subsequent to completion, the Company and its joint venture partners will focus on contracting a rig to drill the Gazania-1 well. The joint venture partners will monitor COVID-19's impact on potential drilling operations closely.

## SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share amounts)	31-Dec 2020	30-Sep 2020	30-Jun 2020	31-Mar 2020	31-Dec 2019	30-Sep 2019	30-Jun 2019	31-Mar 2019
Operating expenses (\$)	(858)	(1,138)	(559)	(1,856)	(559)	(686)	(1,109)	(2,268)
Foreign exchange gain (loss) (\$)	127	22	50	(195)	32	(35)	28	-
Interest and other income (\$)	26	18	40	60	12	21	17	29
Net loss (\$)	(705)	(1,098)	(469)	(1,991)	(515)	(700)	(1,064)	(2,239)
Weighted average shares - Basic	1,155,276	798,067	790,639	749,015	684,217	684,063	683,788	683,432
Weighted average shares - Diluted	1,155,276	798,067	790,639	749,015	684,217	684,063	683,788	683,432
Basic loss per share (\$)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Diluted loss per share (\$)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Exploration and evaluation expenditures (\$)	(19)	(29)	(69)	(27)	(129)	(1)	(20)	(54)

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

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. Operating expenses increased during the first quarter of 2020 as the Company paid annual bonuses and granted 14.7 million stock options to directors, officers and employees of the Company, of which one-third vested immediately. Operating expenses increased during the third and fourth quarters of 2020 due to professional fees incurred relating to the transactions to increase the Company's effective interest in Block 11B/12B.

Foreign exchange gains and losses incurred by the Company are the result of holding Canadian dollars and South African Rand 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 of the cash 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 US dollar deposits in the second and fourth quarters of 2020.

Weighted average shares increased during the first and third quarters of 2020 due to the financings that closed in February and September 2020. Weighted average shares increased during the fourth quarter of 2020 due to the Company issuing 509,092,771 common shares to Impact pursuant to the completion of a subscription agreement in November 2020.

Oil and gas expenditures incurred related to license fees and geological and geophysical work performed on Block 2B. The Company has incurred costs since the fourth quarter of 2019 associated with planning an exploration well that is expected to spud in the third quarter of 2021.

## RESULTS OF OPERATIONS

(thousands)	Three months ended December 31, 2020	Three months ended December 31, 2019	Year ended ended December 31, 2020	Year ended ended December 31, 2019
Salaries and benefits	\$ 254	\$ 160	\$ 1,634	\$ 2,001
Stock-based compensation	140	270	1,144	1,643
Travel	-	44	24	204
Consulting fees	65	61	224	293
Office and general	53	39	152	352
Depreciation	8	9	32	16
Professional fees	271	83	945	217
Stock exchange and filing fees	46	17	234	148
Recovery of investment	-	(133)	-	(133)
Share of (income)/loss from equity investments	21	9	22	(119)
Operating expenses	\$ 858	\$ 559	\$ 4,411	\$ 4,622

Operating expenses increased by \$0.3 million for the three months ended December 31, 2020, compared to the same period in 2019 due mainly to an increase in professional fees related to the transactions to increase the Company's effective interest in Block 11B/12B offshore South Africa. Salaries and benefits increased during the three months ended December 31, 2020 due to the expiration of a service agreement on June 30, 2020, whereby the Company provided new venture services to AOC. The consulting fee was recognized as a reduction in salaries and benefits expense. The increase was partially offset by a reduction in stock-based compensation of \$0.1 million due to the issuance of 14.7 million stock options to directors, officers and employees of the Company at a lower fair value expense per option compared to the 13.7 million options granted during 2019.

Operating expenses decreased by \$0.2 million for the year ended December 31, 2020, compared to the same period in 2019 due to efforts to reduce overall corporate costs and a reduction in stock-based compensation of \$0.4 million due to the issuance of 14.7 million stock options to directors, officers and employees of the Company at a lower fair value expense per option compared to the 13.7 million options granted during the year ended December 31, 2019. This decrease was partially offset by an increase in professional fees and stock exchange and filing fees related to the transactions to increase the Company's effective interest in Block 11B/12B offshore South Africa.

## SELECTED ANNUAL INFORMATION

For the years ended December 31, (thousands, except per share amounts)	2020	2019	2018
<b>Statement of Operations Data</b>			
Interest income	\$ 144	\$ 79	\$ 558
Net loss	(4,263)	(4,518)	(13,085)
<b>Data per Common Share</b>			
Basic and diluted loss per share	(0.00)	(0.01)	(0.02)
<b>Balance Sheet Data</b>			
Working capital	18,193	2,111	3,197
Total assets	\$ 244,034	\$ 41,908	\$ 44,300

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 financings completed in February 2020 and September 2020.

The Company recorded a net loss of \$4.3 million in 2020 compared to a net loss in 2019 of \$4.5 million. The decrease in net loss is explained above in “Results of Operations”. 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 the Company recognizing an \$8.2 million impairment of the investment in Pancontinental Namibia.

The increase in working capital from 2019 to 2020 is due to the financings completed by the Company in September 2020 for gross proceeds of \$27.6 million and in February 2020 for gross proceeds of \$25.0 million. The decrease in working capital from 2018 to 2019 is due to cash-based operating expenditures that were partially offset by cash received from the Company’s investment in Main Street 1549.

The increase in total assets from 2019 to 2020 is primarily due to the completion of the definitive agreements to increase the Company’s effective interest in Block 11B/12B. The decrease in total assets from 2018 to 2019 is primarily due to operating expenditures incurred in 2019.

## **INVESTMENT IN MAIN STREET 1549**

At December 31, 2020, Africa Energy holds 49% of the common shares and 100% of the Class B Shares of Main Street 1549, a private South African entity. The remaining 51% of the common shares of Main Street 1549 are held by Arostyle. Main Street 1549 holds a 10% participating interest in the Exploration Right for Block 11B/12B offshore the Republic of South Africa.

At December 31, 2020, the Company accounted for its investment in Main Street 1549 as follows; \$215.2 million as a financial asset and \$1.6 million as an equity investment. Prior to the completion of the two definitive agreements described below, the Company accounted for the investment in Main Street 1549 solely as an equity investment.

On October 22, 2020, the Company completed two definitive agreements, which allow Africa Energy to increase its effective interest in Block 11B/12B offshore South Africa from 4.9% to 10%.

In accordance with the definitive agreement entered into with Impact, Africa Energy subscribed for all of the Class B shares of Impact 11B/12B and thereby obtained 99.9% voting control of Impact 11B/12B, whose sole asset is a loan to Arostyle that provides for an indirect financial interest in Main Street 1549. In addition, Impact completed a subscription agreement with Africa Energy to subscribe for 509,092,771 common shares of the Company that completed on November 12, 2020. The common shares issued to Impact were subject to resale restrictions that expired on March 13, 2021.

In accordance with the definitive agreement entered into with Arostyle, amendments to the Main Street 1549 SHA provide that Africa Energy fund 100% of the obligations of Main Street 1549 by way of Class B share subscriptions, which provide a risk-adjusted return linked to the proceeds on any future sale of Main Street 1549 or the Block 11B/12B Participating Interest. In addition, the amendments to the Main Street 1549 SHA provide that either Africa Energy or Arostyle has the right to trigger the sale of the 10% participating interest in Block 11B/12B to a wholly-owned subsidiary of Africa Energy (“Arostyle Option”). The Arostyle Option became exercisable by either party after completion of the Lui-perd-1X well and will be subject to receiving all required regulatory approvals and joint venture partner consents and waivers. Exercise of the Arostyle Option would result in Arostyle being issued 64,455,916 Africa Energy Shares. The Arostyle Option remains unexercised.

For the year ended December 31, 2020, the Company invested \$184.6 million in Main Street 1549, consisting of \$31.2 million in Main Street 1549 Class B share subscriptions, \$2.1 million by way of non-interest bearing advances and \$151.3 million representing the issuance of 509,092,771 common shares of Africa Energy in exchange for 100% of the Class B shares of Impact 11B/12B. For the year ended December 31, 2019, the Company recovered \$2.0 million of its investment in Main Street 1549.

At completion of the two definitive agreements described above, the Company recognized \$215.2 million of the investment in Main Street 1549 as a financial asset. The Main Street 1549 SHA provides priority dividend distribution entitlement by class of share. For accounting purposes, shares that have priority distribution entitlements do not meet the definition of a Solely Payments of Principal and Interest ("SPPI"), and therefore the majority of the investment in Main Street 1549 would be derecognized from the equity investment and recorded as a financial instrument at fair value through profit or loss ("FVTPL").

In order to value the financial asset recognized at FVTPL, the Company estimated the priority dividend distributions to be received by the Company as this represents fair value of future cash flows to be received by Africa Energy in accordance with the amended Main Street 1549 SHA. The total proceeds estimated to be received by Main Street 1549 to be distributed to its shareholders were based on a discounted future cash flow model of the Company's effective interest in Block 11B/12B. For accounting purposes, the Company used a discount rate of 16.4%, a base gas price of \$7.89/mcf and a base Brent oil price of \$60/bbl to determine the fair value of the financial asset, which was estimated to be \$215.2 million. The value of the remaining, non-priority dividends for common shares to be received by the Company was estimated to be \$1.6 million and accounted for as an equity investment.

As at December 31, 2020, a one percent increase in the effective discount rate would have resulted in a reduction of disposal proceeds of \$34.6 million. A one percent decrease in the effective discount rate would have resulted in an increase of disposal proceeds of \$40.1 million. An increase in the gas price of \$1/mcf would result in an increase of disposal proceeds of \$38.2 million and a decrease of \$1/mcf would result in a decrease of disposal proceeds of \$38.6 million. In terms of the actual disposal proceeds used in the model, a \$30.0 million increase/decrease in the disposal proceeds would create an after-tax impact of \$27.1 million.

In accordance with the farmin agreements entered into in December 2018 with each of Total and CNRI (together, the "Block 11B/12B Farmin Agreements"), Main Street 1549 funded \$5.0 million of Total's and CNRI's portion of the 3D seismic costs in 2020 and \$5.0 million of Total's and CNRI's portion of the drilling costs for the Luiperd-1X well due to the discovery at the Brulpadda-1AX well in February 2019.

Further, the Block 11B/12B Farmin Agreements require that 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 proposed development is for exploitation of predominantly oil, Main Street 1549 will be obligated to pay Total and CNRI up to \$90.0 million depending on the amount of reserves at that time. If the proposed development is for exploitation of gas, Main Street 1549 will be obligated to pay Total and CNRI up to \$24.0 million depending on the amount of reserves at that time.

At December 31, 2020, Main Street 1549 has not accrued any material obligations related to the commercial discovery bonus.

The Company recognized losses of \$0.02 million for the year ended December 31, 2020 relating its equity investment in Main Street 1549 (the Company recognized gains of \$0.1 million for the year ended December 31, 2019).

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

## INVESTMENT IN PANCONTINENTAL NAMIBIA

During the year ended December 31, 2019, the Company received \$0.1 million from Pancontinental Namibia that was accounted for as a recovery in the statement of profit and loss.

At December 31, 2020, there were no indicators of impairment

## INTANGIBLE EXPLORATION ASSETS

(thousands)	December 31, 2020	December 31, 2019
Intangible exploration assets	\$ 7,168	\$ 7,024

During the year ended December 31, 2020, the Company capitalized \$0.1 million (year ended December 31, 2019, \$0.2 million) of intangible exploration expenditures of which \$0.06 million of general and administrative expenses related to Block 2B (year ended December 31, 2019, \$0.05 million).

At December 31, 2020, intangible exploration assets were not impaired as there were no indicators for impairment, therefore a full impairment test was not performed.

## LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2020, the Company had cash of \$19.6 million and working capital of \$18.2 million compared to cash of \$2.4 million and working capital of \$2.1 million at December 31, 2019. The Company completed two private placements in 2020: one in September 2020 issuing an aggregate of 81,667,000 common shares at a price of SEK 3.00 (approximately CAD 0.45) per share for gross proceeds of \$27.6 million, and another in February 2020 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.

In addition, Main Street 1549 held \$0.05 million cash with negative working capital of \$3.8 million at December 31, 2020.

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, 2020 was \$1.1 million compared to \$1.6 million for the year ended December 31, 2019. During the year ended December 31, 2020, 14.7 million stock options were granted to directors, officers and employees of the Company, of which one-third vested immediately, compared to 13.7 million stock options granted during year ended December 31, 2019, of which one-third vested immediately. The decrease in stock-based compensation expense can be mainly attributed to a decrease in the fair value expense per option granted during 2020 compared to the same period in 2019.

## **RELATED PARTY TRANSACTIONS**

### ***TRANSACTIONS WITH AFRICA OIL CORP (“AOC”):***

At December 31, 2020, AOC owned 19.9% of the common shares of Africa Energy.

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, 2020 (\$0.1 million for the year ended December 31, 2019). At December 31, 2020, the outstanding balance payable to AOC was \$ nil (at December 31, 2019, \$ 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 the Consulting Services Agreement, effective March 1, 2019, between AOC and the Company for the provision of new venture consulting services, the Company invoiced AOC \$0.3 million during 2020 until the expiration of the Consulting Services Agreement on June 30, 2020. The consulting fee charged to AOC by the Company was intended to cover the costs of the Company's employees who provided AOC with new venture services. The consulting fee was recognized as a reduction in salaries and benefits expense.

On July 1, 2020, the Company entered into a General Technical and Administrative Service Agreement with Africa Oil SA Corp. (“AOSAC”), a wholly-owned subsidiary of AOC. The Company invoiced AOSAC \$0.2 million during the year ended December 31, 2020. The consulting fee charged to AOSAC by the Company is intended to cover the costs of the Company's employees who are providing AOSAC with technical and administrative services relating to its 100% operating interest in Block 3B/4B, located offshore South Africa. The consulting fee is recognized as a reduction in salaries and benefits expense, and office and general costs.

### ***TRANSACTIONS WITH IMPACT:***

At December 31, 2020, Impact owned 36.5% of the common shares of Africa Energy.

In November 2020, Impact completed a subscription agreement with Africa Energy to subscribe for 509,092,771 common shares of Africa Energy. The common shares issued to Impact were subject to resale restrictions under Canadian securities laws that expired on March 13, 2021. The common shares were valued at CAD \$0.39 per share for a total value of \$151.3 million.

### ***REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT:***

Remuneration of Directors and Senior Management includes all amounts earned and awarded to the Company's Board of Directors and Senior Management. Senior Management includes the Company's President and Chief Executive Officer, Chief Financial Officer 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,	
	2020	2019
Directors' fees	\$ 107	\$ 114
Directors' share-based compensation	188	268
Management's short-term wages, bonuses and benefits	1,457	1,210
Management's share-based compensation	673	767
	\$ 2,425	\$ 2,359

## COMMITMENTS AND CONTINGENCIES

### *BLOCK 2B, REPUBLIC OF SOUTH AFRICA*

Under the terms of the Block 2B Exploration Right, the Company and its partner are currently in the Third Renewal Period, which is set to expire on November 16, 2022. The Third Renewal Period includes an obligation to drill a well.

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, 2020, 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 on 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	1,395,333,039
Outstanding share purchase options	42,780,000
Full dilution impact on common shares outstanding	1,438,113,039

## 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's significant accounting policies can be found in the Company's Financial Statements for the year ended December 31, 2020.

## **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.

## **FINANCIAL ASSETS**

The investment in Main Street 1549 common shares and Class B Shares is initially recorded at fair value based on the value of the expected distributions as determined based on dividend distributions whereby the Company would receive preferential treatment on Class B shares of Mainstreet 1549. The recoverable amount of the participating interest in Block 11B/12B was determined by calculating the fair value less costs of disposal of Mainstreet 1549's interest in Block 11B/12B through use of a discounted cash flow model. The financial asset will be revalued at each period end.

## **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 undepleted 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.

#### ***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](http://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 DEPENDENCY 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.

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 licenses to make sincere attempts to find a suitable partner who is a Historically Disadvantaged South African and to make available to such partner not more than a 1/10th undivided interest share in the right or license at fair market value. The terms of, and application of, these black empowerment policies and other laws and regulations in South Africa 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 farm 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 could be affected by global health emergencies, as is currently the case with COVID-19. Travel restrictions and business closures as a result of containment efforts have had a significantly negative impact on the demand for oil and oil-based products, oil prices, jet fuel consumption, and global economic growth, as well as a significant impact on logistics and operations.

## ***FOREIGN CURRENCY EXCHANGE RATE RISK***

The Company is exposed to changes in foreign exchange rates as expenses in international subsidiaries, oil and gas expenditures, or financial instruments may fluctuate due to changes in rates. The Company's exposure is partially offset by sourcing capital projects and expenditures in US dollars. Africa Energy had no forward exchange contracts in place as at December 31, 2020.

## ***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, 2021 on May 10, 2021.

### **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, 2020 and 2019, 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, 2020 and 2019;
- 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 significant accounting policies and other explanatory information.

---

### Basis for opinion

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

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

#### Independence

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

---

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



---

## **Other information**

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

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

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

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

---

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

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

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

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

---

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

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





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

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

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



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

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

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Calgary, Alberta  
March 24, 2021

# AFRICA ENERGY CORP.

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

		December 31, 2020	December 31, 2019
<b>ASSETS</b>			
	<b>Note</b>		
Current assets			
Cash and cash equivalents		\$ 19,643	\$ 2,408
Accounts receivable		151	63
Prepaid expenses		195	84
		19,989	2,555
Long-term assets			
Investment in associate	4,5	1,638	32,255
Financial asset	4	215,197	-
Property and equipment	6	42	74
Intangible exploration assets	7	7,168	7,024
		224,045	39,353
<b>Total assets</b>		<b>\$ 244,034</b>	<b>\$ 41,908</b>
<b>LIABILITIES AND EQUITY ATTRIBUTABLE TO COMMON SHAREHOLDERS</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 1,777	\$ 413
Lease obligations	19	19	31
		1,796	444
Long-term liabilities			
Lease obligations	19	-	20
		-	20
<b>Total liabilities</b>		<b>1,796</b>	<b>464</b>
Equity attributable to common shareholders			
Share capital	8	357,905	152,649
Contributed surplus	9	6,820	7,019
Deficit		(122,487)	(118,224)
<b>Total equity attributable to common shareholders</b>		<b>242,238</b>	<b>41,444</b>
<b>Total liabilities and equity attributable to common shareholders</b>		<b>\$ 244,034</b>	<b>\$ 41,908</b>
Commitments and contingencies	18		

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

Approved on behalf of the Board:

"IAN GIBBS"

IAN GIBBS, DIRECTOR

"ADAM LUNDIN"

ADAM LUNDIN, CHAIRMAN

# AFRICA ENERGY CORP.

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

<b>For the years ended</b>		<b>December 31, 2020</b>	<b>December 31, 2019</b>
	<b>Note</b>		
Operating expenses			
Salaries and benefits	13	\$ 1,634	\$ 2,001
Stock-based compensation	9	1,144	1,643
Travel		24	204
Consulting fees	13	224	293
Office and general		152	352
Depreciation	6	32	16
Professional fees		945	217
Stock exchange and filing fees		234	148
Recovery of investment	5	-	(133)
Share of (income)/loss from equity investments	4	22	(119)
		<u>4,411</u>	<u>4,622</u>
Finance income	12	(148)	(104)
Net loss and comprehensive loss attributable to common shareholders		<u>(4,263)</u>	<u>(4,518)</u>
Net loss per share	15		
Basic		\$ (0.00)	\$ (0.01)
Diluted		\$ (0.00)	\$ (0.01)
Weighted average number of shares outstanding for the purpose of calculating earnings per share	15		
Basic		873,814,173	683,877,674
Diluted		<u>873,814,173</u>	<u>683,877,674</u>

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)

		<b>December 31, 2020</b>	<b>December 31, 2019</b>
	<b>Note</b>		
<b>Share capital:</b>	8(b)		
Balance, beginning of the year		\$ 152,649	\$ 152,481
Private placement, net of issue costs		50,668	-
Issued on Impact transaction	4	151,292	-
Exercise of options		3,296	168
<b>Balance, end of the year</b>		<b>357,905</b>	<b>152,649</b>
<b>Contributed surplus:</b>	9		
Balance, beginning of the year		\$ 7,019	\$ 5,447
Exercise of options		(1,343)	(71)
Stock-based compensation		1,144	1,643
<b>Balance, end of the year</b>		<b>6,820</b>	<b>7,019</b>
<b>Deficit:</b>			
Balance, beginning of the year		\$ (118,224)	\$ (113,706)
Net loss for the year		(4,263)	(4,518)
<b>Balance, end of the year</b>		<b>(122,487)</b>	<b>(118,224)</b>
<b>Equity attributable to common shareholders</b>		<b>\$ 242,238</b>	<b>\$ 41,444</b>

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)

<b>For the years ended</b>		<b>December 31, 2020</b>	<b>December 31, 2019</b>
Cash flows provided by (used in):			
	<b>Note</b>		
Operations:			
Net loss for the year		\$ (4,263)	\$ (4,518)
Items not affecting cash:			
Stock-based compensation	9	1,144	1,643
Depreciation	6	32	16
Interest on lease obligations	19	4	2
Share of (income)/loss from equity investments	4	22	(119)
Unrealized foreign exchange (gain)/loss		(4)	(25)
Recovery of investment	5	-	(133)
Changes in non-cash operating working capital	20	(288)	381
Net cash used in operating activities		(3,353)	(2,753)
Investing:			
Property and equipment expenditures	6	-	(5)
Intangible exploration expenditures	7	(144)	(204)
Investment in joint ventures	4	(2,146)	2,180
Investment in Main Street 1549 Class B shares	4	(31,164)	-
Changes in non-cash investing working capital	20	1,453	73
Net cash provided by/(used in) investing activities		(32,001)	2,044
Financing:			
Common shares issued on private placement	8(b)	52,623	-
Common shares issued on exercise of options	9	1,953	97
Share issuance costs	8(b)	(1,955)	-
Payment of lease obligations	19	(33)	(14)
Net cash provided by financing activities		52,588	83
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		1	25
Increase/(decrease) in cash and cash equivalents		17,235	(601)
Cash and cash equivalents, beginning of the year		\$ 2,408	\$ 3,009
Cash and cash equivalents, end of the year		\$ 19,643	\$ 2,408
Supplementary information:			
Interest paid		Nil	Nil
Taxes paid		Nil	Nil

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

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

## 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, an exploration-stage enterprise that currently has no proved reserves, owns the following interest in exploration assets:

- 49% of the common shares and 100% of the Class B shares in Main Street 1549 Proprietary Limited ("Main Street 1549"), which has a 10% participating interest in the Exploration Right for Block 11B/12B offshore the Republic of South Africa ("Block 11B/12B");
- a 90% participating interest in the Exploration Right for Block 2B offshore the Republic of South Africa ("Block 2B"); and
- one-third of the shares in a wholly-owned subsidiary of Pancontinental Oil and Gas N.L. ("Pancontinental") that currently holds a 43.85% participating interest in Petroleum Exploration License 37 offshore the Republic of Namibia ("PEL 37").

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, the imposition of currency controls, and health pandemics, 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, 2021, the date the Board of Directors approved the statements.

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

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 4).

iv) Valuation of financial asset:

The investment in Main Street 1549 common shares and Class B Shares is initially recorded at fair value based on the value of the expected distributions as determined based on dividend distributions whereby the Company would receive preferential treatment on Class B shares of Mainstreet 1549. The recoverable amount of the participating interest in Block 11B/12B was determined by calculating the fair value less costs of disposal ("FVLCD") of Mainstreet 1549's interest in Block 11B/12B through use of a discounted cash flow model.

The financial asset will be revalued at each period end.



# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

v) 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 4, 5 and 16).

vi) Deferred tax asset:

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

vii) 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.

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

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.

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

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.

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

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) Financial assets carried at fair value through profit or loss (“FVTPL”):

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

An impairment loss in respect of a financial asset carried at FVTPL 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.

iii) 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.

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

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.

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

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. Additionally, investments in Class A and Class B shares that contain priority distribution entitlements are also included in this category.

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's financial asset has been recognized in this category as it does not meet the definition of Solely Payments of Principal and Interest ("SPPI").

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.

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

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 (amortized cost):*

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.

**i) 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) Investment in Main Street 1549:**

Financial asset:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Balance, beginning of the year	\$ -	\$ -
Amounts transferred from equity investment in Main Street 1549	215,197	-
Balance, end of the year	\$ 215,197	\$ -

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

## Equity Investment:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Balance, beginning of the year	\$ 32,255	\$ 34,183
Funds contributed to Main Street 1549 through loans	2,146	-
Funds received from Main Street 1549	-	(2,047)
Funds contributed to Main Street 1549 through subscription for Class B Shares	31,164	-
Common shares issued by the Impact Subscription Agreement	151,292	-
Derecognition of investment in joint venture	(215,197)	-
Share of income/(loss) from equity investment	(22)	119
<b>Balance, end of the year</b>	<b>\$ 1,638</b>	<b>\$ 32,255</b>

At December 31, 2020, Africa Energy holds 49% of the common shares and 100% of the Class B Shares of Main Street 1549, a private South African entity. The remaining 51% of the common shares of Main Street 1549 are held by Arostyle Investments (RF) (Proprietary) Limited (“Arostyle”). Main Street 1549 holds a 10% participating interest in the Exploration Right for Block 11B/12B offshore the Republic of South Africa (“Block 11B/12B Participating Interest”).

At December 31, 2020, the Company accounted for its investment in Main Street 1549 as follows; \$215.2 million as a financial asset and \$1.6 million as an equity investment. Prior to the completion of the two definitive agreements described below, the Company accounted for the investment in Main Street 1549 solely as an equity investment.

On October 22, 2020, the Company completed two definitive agreements, that allow Africa Energy to increase its effective interest in Block 11B/12B offshore South Africa from 4.9% to 10%.

In accordance with the definitive agreement entered into with Impact Oil & Gas Limited (“Impact”), Africa Energy subscribed for all of the Class B shares of Impact Oil & Gas SA Blocks 11B-12B Limited (“Impact 11B/12B”) and thereby obtained 99.9% voting control of Impact 11B/12B, whose sole asset is a loan to Arostyle that provides for an indirect financial interest in Main Street 1549 (“Arostyle Loan Agreement”). In addition, Impact completed a subscription agreement with Africa Energy to subscribe for 509,092,771 common shares of the Company, which completed on November 12, 2020. The common shares issued to Impact were subject to resale restrictions that expired on March 13, 2021.

In accordance with the definitive agreement entered into with Arostyle, amendments to the Main Street 1549 shareholders agreement (“Main Street 1549 SHA”) provide that Africa Energy fund 100% of the obligations of Main Street 1549 by way of Class B share subscriptions, which provide a risk-adjusted return linked to the proceeds on any future sale of Main Street 1549 or the Block 11B/12B Participating Interest. In addition, the amendments to the Main Street 1549 SHA provide that either Africa Energy or Arostyle has the right to trigger the sale of the 10% participating interest in Block 11B/12B to a wholly-owned subsidiary of Africa Energy (“Arostyle Option”). The Arostyle Option became exercisable by either party after completion of the Luiperd-1X well for an unlimited period of time and will be subject to receiving all required regulatory approvals and joint venture partner consents and waivers. Exercise of the Arostyle Option would result in Arostyle being issued 64,455,916 Africa Energy shares. The Arostyle Option remains unexercised.

For the year ended December 31, 2020, the Company invested \$184.6 million in Main Street 1549, consisting of \$31.2 million in Main Street 1549 Class B share subscriptions, \$2.1 million by way of non-interest bearing advances and \$151.3 million representing the issuance of 509,092,771 common shares of Africa Energy in exchange for 100% of the Class B shares of Impact 11B/12B. For the year ended December 31, 2019, the Company recovered \$2.0 million of its investment in Main Street 1549.



# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

At completion of the two definitive agreements described above, the Company recognized \$215.2 million of the investment in Main Street 1549 as a financial asset. The Main Street 1549 SHA provides priority dividend distribution entitlement by class of share. For accounting purposes, shares that have priority distribution entitlements do not meet the definition of a SPPI, and therefore the majority of the investment in Main Street 1549 would be derecognized from the equity investment and recorded as a financial instrument at FVTPL.

In order to value the financial asset recognized at FVTPL, the Company estimated the priority dividend distributions to be received by the Company as this represents fair value of future cash flows to be received by Africa Energy in accordance with the amended Main Street 1549 SHA. The total proceeds estimated to be received by Main Street 1549 to be distributed to its shareholders were based on a discounted future cash flow model of the Company's effective interest in Block 11B/12B. For accounting purposes, the Company used a discount rate of 16.4%, a base gas price of \$7.89/mcf and a base Brent oil price of \$60/bbl to determine the fair value of the financial asset, which was estimated to be \$215.2 million. The value of the remaining, non-priority dividends for common shares to be received by the Company was estimated to be \$1.6 million and accounted for as an equity investment.

As at December 31, 2020, a one percent increase in the effective discount rate would have resulted in a reduction of disposal proceeds of \$34.6 million. A one percent decrease in the effective discount rate would have resulted in an increase of disposal proceeds of \$40.1 million. An increase in the gas price of \$1/mcf would result in an increase of disposal proceeds of \$38.2 million and a decrease of \$1/mcf would result in a decrease of disposal proceeds of \$38.6 million. In terms of the actual disposal proceeds used in the model, a \$30.0 million increase/decrease in the disposal proceeds would create an after-tax impact of \$27.1 million.

In accordance with the farmin agreements entered into in December 2018 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 (together, the "Block 11B/12B Farmin Agreements"), Main Street 1549 funded \$5.0 million of Total's and CNRI's portion of the 3D seismic costs in 2020 and \$5.0 million of Total's and CNRI's portion of the drilling costs for the Luiperd-1X well due to the discovery at the Brulpadda-1AX well in February 2019.

Further, the Block 11B/12B Farmin Agreements require that 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 proposed development is for exploitation of predominantly oil, Main Street 1549 will be obligated to pay Total and CNRI up to \$90.0 million depending on the amount of reserves at that time. If the proposed development is for exploitation of gas, Main Street 1549 will be obligated to pay Total and CNRI up to \$24.0 million depending on the amount of reserves at that time.

At December 31, 2020, Main Street 1549 has not accrued any material obligations related to the commercial discovery bonus.

The Company recognized losses of \$0.02 million for the year ended December 31, 2020 relating its equity investment in Main Street 1549 (the Company recognized gains of \$0.1 million for the year ended December 31, 2019).

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

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

The following is a financial summary of Main Street 1549:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Cash and cash equivalents included in current assets	\$ 50	\$ 17,752
Other current assets	2,001	2,004
Non-current assets	102,669	67,452
Preferential interest on dividend distributions <sup>(1)</sup>	(95,528)	-
Current liabilities	(5,849)	(21,381)
Net assets of Main Street 1549	\$ 3,343	\$ 65,827
Percentage of ownership	49%	49%
Proportionate share of Main Street 1549's net assets	\$ 1,638	\$ 32,255

<b>For the years ended</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Operating expense	\$ (54)	\$ (41)
Finance income	9	284
Net income/(loss) and comprehensive income/(loss)	\$ (45)	\$ 243
Percentage of ownership	49%	49%
Proportionate share of Main Street 1549's net income/(loss)	\$ (22)	\$ 119

<sup>(1)</sup> Included in the financial summary is an adjustment for preferential interest on dividend distributions.

At December 31, 2020, Main Street 1549 had cash of \$0.05 million (gross) with negative working capital of \$3.8 million (gross).

## 5) Investment in Pancontinental Namibia:

Equity Investment:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Balance, beginning of the year	\$ -	\$ -
Funds received from Pancontinental Namibia	-	(133)
Recovery of investment	-	133
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. The joint venture partners on PEL 37 have fulfilled the obligations of the current exploration period expiring March 27, 2021.

At December 31, 2020, there were no indicators of impairment.

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

## 6) Property and equipment:

	December 31, 2020	December 31, 2019
Cost, beginning of the year	\$ 233	\$ 165
Additions	-	5
Increase in right-of-use assets	-	63
Cost, end of the year	233	233
Accumulated depreciation, beginning of the year	(159)	(143)
Depreciation	(32)	(16)
Accumulated depreciation, end of the year	(191)	(159)
Net carrying amount, beginning of the period	\$ 74	\$ 22
Net carrying amount, end of the year	\$ 42	\$ 74

As at December 31, 2020, the Company has recorded \$0.04 million of property and equipment (December 31, 2019 - \$0.07 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 \$0.03 million relating to the Company's right-of-use assets.

## 7) Intangible exploration assets:

	December 31, 2020	December 31, 2019
Net carrying amount, beginning of the year	\$ 7,024	\$ 6,820
Intangible exploration expenditures	144	204
Net carrying amount, end of the year	\$ 7,168	\$ 7,024

As at December 31, 2020, \$7.2 million of exploration expenditures have been capitalized as intangible exploration assets (December 31, 2019, \$7.0 million). These expenditures relate to license fees, geological, geophysical and well studies and general and administrative costs related to Block 2B.

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. These agreements have not completed.

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.

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

Under the terms of a farmout agreement entered into with a subsidiary of Panoro Energy ASA ("Panoro"), a wholly-owned subsidiary of Africa Energy farmed out 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.

During the year ended December 31, 2020, the Company capitalized \$0.06 million of general and administrative expenses related to intangible exploration assets (December 31, 2019, \$0.05 million).

At December 31, 2020, intangible exploration assets were not impaired as there were no indicators for impairment, therefore a full impairment test was not performed.

## 8) Share capital:

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

b) Issued:

	Note	December 31, 2020		December 31, 2019	
		Shares	Amount	Shares	Amount
Balance, beginning of the year		684,216,927	\$ 152,649	683,356,094	\$ 152,481
Exercise of options	9	15,704,167	3,296	860,833	168
Private placement, net of issue costs		186,319,174	50,668	-	-
Impact Subscription Agreement	4	509,092,771	151,292	-	-
Balance, end of the year		1,395,333,039	\$ 357,905	684,216,927	\$ 152,649

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 \$1.0 million was paid in cash to Pareto Securities AB and SpareBank1 Markets AS.

On September 30, 2020, the Company completed a private placement issuing an aggregate of 81,667,000 common shares at a price of SEK 3.00 (approximately CAD\$0.45) per share for gross proceeds of approximately \$27.6 million. A broker's fee of approximately \$0.8 million was paid in cash to Pareto Securities AB, Arctic Securities AS and Fearnley Securities AS.

On November 12, 2020, the Company issued 509,092,771 common shares to Impact pursuant to the terms of a subscription agreement between the Company and Impact dated August 24, 2020 (see note 4). The common shares issued to Impact were subject to resale restrictions under Canadian securities laws that expired March 13, 2021. For accounting purposes, the shares issued to Impact were valued at CAD\$0.39 per share. Impact owns 36.5% of the common shares of Africa Energy.

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

## 9) Share purchase options:

At the Annual General and Special Meeting held on June 11, 2020, 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.

Share purchase options outstanding are as follows:

	December 31, 2020		December 31, 2019	
	Number of options	Weighted average exercise price (CAD\$)	Number of options	Weighted average exercise price (CAD\$)
Outstanding, beginning of the year	44,634,167	0.18	31,808,333	0.16
Granted	14,700,000	0.17	13,715,000	0.245
Expired	(850,000)	0.21	(28,333)	0.22
Exercised	(15,704,167)	0.16	(860,833)	0.15
Balance, end of the year	42,780,000	0.18	44,634,167	0.18

- i) During the year ended December 31, 2020, 15,704,167 stock options were exercised from which \$1.3 million in contributed surplus was transferred to share capital. 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.

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, 2020 and 2019 were estimated on the date of grant using the following weighted average assumptions:

	2020	2019
Number of options granted during the year	14,700,000	13,715,000
Fair value of options granted (CAD\$)	0.10	0.15
Risk-free interest rate (%)	0.66	1.47
Expected life (years)	3.00	3.00
Expected volatility (%)	92	94
Expected dividend yield	-	-

The following table summarizes information regarding stock options outstanding at December 31, 2020:

Weighted average exercise price (CAD\$/share)	Options outstanding	Weighted average remaining contractual life in years
0.125	2,770,000	0.37
0.11	500,000	0.42
0.17	2,500,000	1.51
0.165	11,230,000	2.37
0.245	11,285,000	3.17
0.17	14,495,000	4.23
0.18	42,780,000	3.01

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

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.

The following table summarizes information regarding stock options exercisable at December 31, 2020:

<b>Weighted average exercise price (CAD\$/share)</b>	<b>Options exercisable</b>	<b>Weighted average remaining contractual life in years</b>
0.125	2,770,000	0.37
0.11	500,000	0.42
0.17	2,500,000	1.51
0.165	11,230,000	2.37
0.245	7,220,000	3.17
0.17	4,695,000	4.23
0.18	28,915,000	2.57

The Company recognized \$1.1 million in stock-based compensation expense for the year ended December 31, 2020 (\$1.6 million for the year ended December 31, 2019).

## 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, 2020, the Company held \$0.3 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.

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

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, 2020, 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.

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Equity	\$ 242,238	\$ 41,444
Less: working capital <sup>(1)</sup>	(18,193)	(2,111)
<b>Total capitalization</b>	<b>\$ 224,045</b>	<b>\$ 39,333</b>

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

## 12) Finance income and expense:

Finance income and expense is comprised of the following:

<b>For the years ended</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Interest and other income	\$ (144)	\$ (79)
Foreign exchange gain	(4)	(25)
<b>Finance income</b>	<b>\$ (148)</b>	<b>\$ (104)</b>

## 13) Related party transactions:

### a) Transactions with AOC:

At December 31, 2020, AOC owned 19.9% of the common shares of Africa Energy.

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, 2020 (\$0.1 million for the year ended December 31, 2019). At December 31, 2020, the outstanding balance payable to AOC was \$ nil (at December 31, 2019, \$ 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 the Consulting Services Agreement, effective March 1, 2019, between AOC and the Company for the provision of new venture consulting services, the Company invoiced AOC \$0.3 million during 2020 until the expiration of the Consulting Services Agreement on June 30, 2020. The consulting fee charged to AOC by the Company was intended to cover the costs of the Company's employees who provided AOC with new venture services. The consulting fee was recognized as a reduction in salaries and benefits expense.

On July 1, 2020, the Company entered into a General Technical and Administrative Service Agreement with Africa Oil SA Corp. ("AOSAC"), a wholly-owned subsidiary of AOC. The Company invoiced AOSAC \$0.2 million during the year ended December 31, 2020. The consulting fee charged to AOSAC by the Company is intended to cover the costs of the Company's employees who are providing AOSAC with technical and administrative services relating to its 100% operating interest in Block 3B/4B, located offshore South Africa. The consulting fee is recognized as a reduction in salaries and benefits expense, and office and general costs.



# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

## b) Transactions with Impact:

At December 31, 2020, Impact owned 36.5% of the common shares of Africa Energy.

In November 2020, Impact completed a subscription agreement with Africa Energy (the "Subscription Agreement") to subscribe for 509,092,771 common shares of Africa Energy (the "Subscription Shares"). The Common Shares issued to Impact pursuant to the Subscription Agreement were subject to resale restrictions under Canadian securities laws that expired on March 13, 2021. The common shares were valued at CAD \$0.39 per share for a total value of \$151.3 million. See note 4 for details on the full transaction.

## c) 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.

<b>For the years ended</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Directors' fees	\$ 107	\$ 114
Directors' share-based compensation	188	268
Management's short-term wages, bonuses and benefits	1,457	1,210
Management's share-based compensation	673	767
	<b>\$ 2,425</b>	<b>\$ 2,359</b>

## 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:

<b>For the years ended</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Net loss and comprehensive loss	\$ (4,263)	\$ (4,518)
Combined federal and provincial statutory income tax rate	24.0%	26.5%
Expected tax recovery	(1,023)	(1,197)
Stock-based compensation	274	436
Loss taxed at a different rate	(45)	(23)
Non-taxable expense items	12	20
Writedown/(recovery) of investment	-	(35)
Unrecognized tax losses	782	799
Tax recovery	\$ -	\$ -

The Company has the following un-booked deductible temporary differences at December 31, 2020 and 2019:

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

	2020	2019
Unbooked deductible temporary differences		
Share issue costs	\$ 443	\$ 729
Unrealized loss on equity investments	40,797	8,274
Non-capital losses carried forward	56,756	53,884
Charitable Donations	403	403
	\$ 98,399	\$ 63,290

The Company has non-capital losses carry forward of \$23.4 million in Canada which begin expiring 2033 and non-capital losses carry forward of \$30.0 million in South Africa which relate to the acquisition of Main Street 840. The non-capital losses in South Africa do not expire.

During the year ended December 31, 2020, as result of the Company's investment in Impact 11B/12B (see note 4), the Company acquired a taxable temporary difference in the amount of \$44,300 for which no deferred tax liability has been recognized as a result of the Initial Recognition Exemption. As at December 31, 2020 the company had a total of \$44,300 (2019 - nil) of taxable temporary differences for which no deferred tax liability has been recognized.

## 15) Net Loss Per Share:

For the years ended	December 31, 2020			December 31, 2019		
	Net loss	Weighted Average		Net loss	Weighted Average	
		Number of shares	Per share amounts		Number of shares	Per share amounts
Basic earnings per share						
Net loss attributable to common shareholders	\$ (4,263)	873,814,173	\$ (0.00)	\$ (4,518)	683,877,674	\$ (0.01)
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	\$ (4,263)	873,814,173	\$ (0.00)	\$ (4,518)	683,877,674	\$ (0.01)

For the year ended December 31, 2020, 42,780,000 options were anti-dilutive and were not included in the calculation of dilutive loss per share (December 31, 2019, 44,634,167).

## 16) Subsidiaries:

The Company has the following wholly owned subsidiaries, unless otherwise stated; Africa Energy UK Limited (United Kingdom) formerly Impact Oil and Gas SA Blocks 11B-12B Limited, 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), Africa Energy South Africa (pty) Limited (South Africa), Africa Energy Namibia Corp. (Canada), 1153123 B.C. Ltd. (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.

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

## 17) Financial Instruments:

Assets and liabilities at December 31, 2020 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 and joint venture and financial assets 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 are currently in the Third Renewal Period, which is set to expire on November 16, 2022. The Third Renewal Period includes an obligation to drill a well.

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, 2020, 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 on Block 2B.

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

## Main Street 1549

Refer to Note 4(i) for details on commitments.

### 19) Lease obligations:

The following table details the Company's lease obligations:

	December 31, 2020	December 31, 2019
Less than one year	19	35
Greater than one year	-	20
Total lease payments	20	55
Amounts representing interest	(1)	(4)
Present value of net lease payments	19	51
Current portion of lease obligations	(19)	(31)
Non-current portion of lease obligations	-	20

The Company's short-term leases and leases of low-value assets amounted to \$ nil for year ended December 31, 2020 (\$0.07 million for the year ended December 31, 2019) and are 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, 2020	December 31, 2019
Changes in non-cash working capital		
Accounts receivable	\$ (88)	\$ 1
Prepaid expenses	(111)	118
Accounts payable and accrued liabilities	1,364	335
	\$ 1,165	\$ 454
Relating to:		
Operating activities	\$ (288)	\$ 381
Investing activities	1,453	73
Changes in non-cash working capital	\$ 1,165	\$ 454