



**AFRICA ENERGY CORP.**

**Report to Shareholders**

**December 31, 2017**

## **AFRICA ENERGY CORP.**

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

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

**For the years ended December 31, 2017 and 2016**

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. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2017 and 2016 and related notes thereto.

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

The effective date of this MD&A is February 28, 2018.

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 holds a 90% participating interest in the offshore Exploration Right for Block 2B in South Africa ("Block 2B"), an effective 10% participating interest in offshore Petroleum License 37 in Namibia ("PEL 37"), and upon closing an effective 4.9% participating interest in the Exploration Right for Block 11B/12B offshore South Africa ("Block 11B/12B"). Closing of the Block 11B/12B farmin transactions is subject to standard conditions for a transaction of this type, including approval of the South African government and the TSX Venture Exchange.

The Company's common shares are traded on the TSX Venture Exchange under the symbol "AFE". As at December 31, 2017, Africa Oil Corp. ("AOC") was the Company's largest shareholder with 28.5% of the issued and outstanding common shares of Africa Energy.

In 2015, Africa Energy decided to take advantage of the downturn in oil prices and aggressively pursue oil and gas exploration and production assets in Africa. The Company has a strong technical team in Cape Town, South Africa with a long track record of success, including several large oil discoveries in Africa.

## **OPERATIONS UPDATE**

In July 2017, Garrett Soden was appointed as the Company's President and Chief Executive Officer and to the Company's Board of Directors. Mr. Soden has extensive experience as a senior executive and board member of various public companies in the natural resources sector. He has worked with the Lundin Group for the last decade.

### **Block 11B/12B, Republic of South Africa**

On November 20, 2017, Main Street 1549 Proprietary Limited ("Main Street 1549"), an entity held 49% by Africa Energy, entered into farmin agreements with each of Total E&P South Africa BV ("Total"), a wholly-owned subsidiary of Total SA, and CNR International (South Africa) Limited ("CNRI"), a wholly-owned subsidiary of Canadian Natural Resources Limited, to acquire an aggregate 10% participating interest in the Exploration Right for Block 11B/12B. Upon close, this transaction will provide Africa Energy with an effective 4.9% interest in Block 11B/12B. The Company paid a deposit of \$490k at signing and will pay an addition \$6.9 million at closing. The block is located in the Outeniqua Basin, approximately 175 kilometers off the southern coast of South Africa, covering an area of approximately 18,734 square kilometers with water depths ranging from 200 to 2,000 meters. Total is Operator of Block 11B/12B and plans to spud the Brulpadda-1AX reentry well on December 1, 2018. Closing is subject to standard conditions, including approval by the South African government and the TSX Venture Exchange.

### **Petroleum Exploration License 37, Republic of Namibia**

On September 13, 2017, the Company completed the acquisition of one-third of the shares of Pancontinental Namibia Pty Ltd. ("Pancontinental Namibia"), which holds a 30% participating interest in PEL 37 offshore the Republic of Namibia. The Company paid Pancontinental Namibia \$2.2 million at closing and will pay an additional \$5.5 million upon spud of the first exploration well provided that certain commercial conditions exist on the spud date, including its pro rata portion of exploration drilling costs of one well in the Second Renewal Period being funded by another joint venture partner. PEL 37 is located in the Walvis Basin and covers an area of 17,295 square kilometers in the northern Namibian offshore region with water depths ranging from 400 to 1,500 meters. Tullow is operator of PEL 37 and plans to spud the Cormorant-1 well on September 1, 2018.

Subsequent to year end, the joint venture partnership in PEL 37 received notification from Ministry of Mines and Energy in Namibia that its application for entry into the Second Renewal Period had been approved. The Second Renewal Period is for a period of two years commencing March 28, 2018, and includes an obligation to drill an exploration well on PEL 37

### **Block 2B, Republic of South Africa**

On October 21, 2016, the Company closed three transactions to acquire a 90% participating interest in Block 2B. Block 2B is located in the Orange Basin and covers an area of 4,360 square kilometers off the west coast of South Africa with water depths ranging from 50 to 200 meters. The former South African state oil company Soekor drilled the A-J1 well on Block 2B in 1988 and discovered and tested light oil. The Company's technical team has identified numerous prospects and potential drilling locations on Block 2B utilizing previously acquired 3D seismic. Africa Energy is the operator and currently running a farmout process to find a partner to share costs on a potential exploration well to be drilled on Block 2B in 2019.

The following three transactions closed on October 21, 2016:

Afren plc ("Afren")

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

Thombo Petroleum Ltd. ("Thombo")

The Company paid \$2.0 million less obligations outstanding at the effective date and issued 14.8 million new common shares of the Company to acquire all the shares of Thombo, a privately-held company holding a 34.5% participating interest and operatorship in Block 2B. The Company may be required 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.

Crown Energy AB ("Crown")

The Company completed a farm-in agreement with a subsidiary of Crown to acquire a 30.5% participating interest in Block 2B. As part of the transaction, the Company paid Crown \$0.3 million for the reimbursement of historical costs and will fund Crown's remaining 10% participating interest of costs associated with the drilling and testing of the next well on Block 2B.

Subsequent to year end, the Company received notification from the Petroleum Agency of South Africa that its application for entry into the Second Renewal Period of the Block 2B Exploration Right had been approved. The Second Renewal Period of the Block 2B Exploration Right is for a period of two years commencing February 20, 2018. During the Second Renewal Period, the joint venture partners are obligated to perform studies and evaluations to determine potential commerciality, and economic sensitivity modelling to establish whether the drilling of a well could prove up potentially commercial oil volumes. If it is determined that drilling could prove up potentially commercial oil volumes, then the joint venture partners are obligated to drill an exploration well on Block 2B.

## **OUTLOOK**

Africa Energy looks forward to drilling the Brulpadda-1AX and Cormorant-1 exploration wells planned in 2018. Africa Energy continues to aggressively identify, evaluate and negotiate additional exploration and production opportunities across Africa. The Company's proven Cape Town-based technical team remains the driving force behind the identification and evaluation of new ventures. Management intends to grow Africa Energy into a material Africa-focused independent exploration and production company. Management believes that it has the technical team and access to capital from supportive shareholders to deliver on this strategy.

## **RECENT FINANCING**

In November 2016, the Company completed a non-brokered private placement issuing 60 million common shares at a price of CAD\$0.25 per share for gross proceeds of CAD\$15.0 million, which equates to approximately \$11.2 million. A finder's fee of approximately \$0.3 million was paid in cash. The common shares issued under the private placement were subject to a statutory four-month hold period that expired on March 16, 2017.

## SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share amounts)	31-Dec 2017	30-Sep 2017	30-Jun 2017	31-Mar 2017	31-Dec 2016	30-Sep 2016	30-Jun 2016	31-Mar 2016
Operating expenses (\$)	(1,721)	(1,138)	(1,304)	(1,037)	(910)	(1,048)	(1,223)	(1,189)
Foreign exchange gain (loss) (\$)	59	172	123	41	40	3	(3)	123
Net loss (\$)	(1,648)	(950)	(1,166)	(980)	(866)	(1,044)	(1,224)	(1,064)
Weighted average shares - Basic	319,177	319,177	319,177	319,177	286,612	244,377	244,377	244,377
Weighted average shares - Diluted	319,177	319,177	319,177	319,177	286,612	244,377	244,377	244,377
Basic loss per share (\$)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)
Diluted loss per share (\$)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)
Oil and gas expenditures (\$)	(1)	(2)	(73)	(80)	(424)	-	-	-

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

Operating costs were relatively consistent from the first quarter of 2016 through to the third quarter of 2017, except for the fourth quarter of 2016 and second quarter of 2017. Operating expenses were slightly lower in the fourth quarter of 2016 due to \$0.2 million of professional fees directly related to acquisitions being capitalized to intangible exploration assets in the quarter. Operating costs increased during the second quarter of 2017 as the Company acquired \$0.3 million of geological and geophysical data to evaluate new venture opportunities. Operating costs increased during the fourth quarter of 2017 as the Company approved annual bonuses and incurred professional fees relating to the Block 11B/12B farmin.

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

Weighted average shares increased in the fourth quarter of 2016 and the first quarter of 2017 due to the financing that closed in November 2016.

Oil and gas expenditures increased in the fourth quarter of 2016 due to capitalization of transaction advisory expenses relating to the Block 2B acquisitions and work performed by the Company's technical team on Block 2B after closing the three related transactions. Oil and gas expenditures incurred during 2017 related to geological and geophysical work performed on Block 2B.

## RESULTS OF OPERATIONS

(thousands)	Three months ended December 31, 2017	Three months ended December 31, 2016	Year ended December 31, 2017	Year ended December 31, 2016
Salaries and benefits	\$ 989	\$ 472	\$ 2,791	\$ 2,168
Stock-based compensation	40	83	196	478
Travel	40	142	296	325
Management fees	33	31	129	136
Consulting fees	186	117	382	314
New venture costs	-	-	315	44
Office and general	133	65	468	456
Depreciation	13	17	59	65
Professional fees	274	(24)	498	343
Stock exchange and filing fees	2	7	55	41
Share of loss from equity investments	11	-	11	-
Operating expenses	\$ 1,721	\$ 910	\$ 5,200	\$ 4,370

Operating expenses increased \$0.8 million during the three months ended December 31, 2017 compared to the same period in 2016. Salaries and benefits increased by \$0.5 million primarily due to annual bonuses being approved at the end of December 2017 for management and employees. Professional fees increased by \$0.3 million due mainly to legal fees incurred relating to the Block 11B/12B farmin compared to the prior year in which transaction advisory expenses relating to the acquisition of Block 2B were capitalized.

Operating expenses increased \$0.8 million during the year ended December 31, 2017 compared to the same period in 2016. Salaries and benefits increased by \$0.6 million primarily due to annual bonuses being approved at the end of December 2017 for management and employees. New venture costs increased as the Company acquired \$0.3 million of geological and geophysical data in the second quarter of 2017. Professional fees increased by \$0.2 million during the year ended December 31, 2017 due to legal fees incurred relating to the Block 11B/12B farmin. This increase was partially offset by a \$0.3 million decrease in stock-based compensation. The decrease in stock-based compensation is due to the issuance of 7.3 million options during 2016, of which one-third vested immediately, compared to 2.5 million options being issued during 2017 where all options cliff vest after three years.

## SELECTED ANNUAL INFORMATION

For the years ended December 31, (thousands, except per share amounts)	2017	2016	2015
Statement of Operations Data			
Interest income	\$ 61	\$ 9	\$ 7
Net loss	(4,744)	(4,198)	(3,196)
Data per Common Share			
Basic and diluted loss per share	(0.01)	(0.02)	(0.03)
Balance Sheet Data			
Net working capital	(1,872)	10,045	6,723
Total assets	\$ 17,457	\$ 17,236	\$ 7,378

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

The Company recorded a net loss of \$4.7 million in 2017 compared to a net loss in 2016 of \$4.2 million. The \$0.5 million increase in the net loss is mainly attributed to an increase in operating expenses as explained above in "Results of Operations", offset partially by an increase in foreign exchange gains. The foreign exchange gains resulted from holding Canadian dollars and South African Rand while these currencies both strengthened versus the U.S. dollar.

The Company recorded a net loss of \$4.2 million in 2016 compared to a net loss in 2015 of \$3.2 million. The larger loss is mainly attributed to an increase in corporate activity as the Company continues to pursue oil and gas exploration and production assets in Africa.

The decrease in net working capital from 2016 to 2017 is due to cash-based operating expenses and the investments in Pancontinental Namibia and Main Street 1549. Net working capital at December 31, 2017 includes a \$4.5 million contingent liability, which is an estimate made by management of the probability that a well will spud on PEL 37 and that certain commercial conditions will exist resulting in an obligation of \$5.5 million to Pancontinental Namibia. The increase in net working capital from 2015 to 2016 is primarily due to the completion of a private placement during the fourth quarter of 2016 in which the Company received \$11.2 million in gross proceeds, partially offset by Block 2B acquisition costs and cash-based operating expenses.

The increase in total assets from 2016 to 2017 is due the Company's investments in associates which is offset by cash-based operating expenditures. The increase in total assets from 2015 to 2016 is due to the completion of a private placements which occurred during the fourth quarter of 2016, offset partially by cash-based operating expenditures.

## INVESTMENT IN ASSOCIATES

During the years ended December 31, 2017 and 2016, the Company made the following investment in associates:

	December 31, 2017	December 31, 2016
Pancontinental Namibia	\$ 6,777	\$ -
Main Street 1549	490	-
Total Investment	\$ 7,267	\$ -

i) Pancontinental Namibia:

On September 13, 2017, the Company completed the acquisition of one-third of the shares of Pancontinental Namibia that holds a 30% participating interest in PEL 37. The Company paid Pancontinental Namibia \$2.2 million at closing and will pay an additional \$5.5 million upon spud of the first exploration well provided that certain commercial conditions exist on the spud date. Management has assessed the likelihood and timing of future drilling and has accrued \$4.5 million of contingent consideration in accounts payable and accrued liabilities.

The investment in Pancontinental Namibia is accounted for using the equity method. The Company's share of losses during the period since the date of acquisition amounted to \$0.01 million. During the year ended December 31, 2017, \$0.06 million in legal expenses relating to the acquisition of Pancontinental were capitalized. The Company has advanced \$0.02 million during the year to cover Pancontinental Namibia's overhead and PEL 37 cash calls.

ii) Main Street 1549:

Africa Energy holds 49% of the common shares of Main Street 1549. In November 2017, Main Street 1549 entered into farmin agreements with each of Total E&P South Africa BV ("Total"), a wholly-owned subsidiary of Total SA, and CNR International (South Africa) Limited ("CNRI"), a wholly-owned subsidiary of Canadian Natural Resources Limited, to acquire an aggregate 10% participating interest in the Exploration Right for Block 11B/12B offshore the Republic of South Africa. Main Street 1549 paid a deposit of \$1.0 million at signature (\$0.5 million net to the Company) and will pay an additional \$6.9 million net to the Company for past costs at closing. Main Street 1549 has agreed to fund a portion of Total and CNRI's costs for the first exploration well to a maximum of \$7.6 million net to the Company, plus certain contingent payments due at various milestones associated with commercialization of hydrocarbons in Block 11B/12B. Closing is subject to standard conditions for a transaction of this type, including approval of the South African government and the TSX Venture Exchange.

## INTANGIBLE EXPLORATION ASSETS

(thousands)	December 31, 2017	December 31, 2016
Intangible exploration assets	\$ 6,678	\$ 6,521

During 2016, the Company completed the acquisition of a 90% participating interest in Block 2B and capitalized acquisition costs.

During 2017, the Company capitalized \$0.2 million (2016, \$0.4 million) of intangible exploration expenditures of which \$0.09 million of general and administrative expenses related to Block 2B (2016, \$0.07 million).



## **LIQUIDITY AND CAPITAL RESOURCES**

As at December 31, 2017, the Company had cash of \$3.1 million and negative working capital of \$1.9 million compared to cash of \$10.2 million and working capital of \$10.0 million at December 31, 2016. The decrease in the Company's cash and working capital are primarily due to cash-based operating expenditures and the investment in Pancontinental Namibia and Main Street 1549. Working capital as at December 31, 2017 includes an accrued liability of \$4.5 million, which is an estimate made by management of the probability that the Company will pay \$5.5 million upon spud of the well if certain commercial conditions exist. In the event drilling does not commence on PEL 37, the Company has no financial obligation.

The Company's working capital position will not provide it with sufficient capital resources to execute future exploration, appraisal and development expenditure plans. To finance its future acquisition, exploration, development and operating costs, Africa Energy will require financing from external sources, including issuance of new shares, issuance of debt or executing working interest farmout or disposition arrangements. There can be no assurance that such financing will be available to the Company 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, 2017 was \$0.2 million compared to \$0.5 million for the year ended December 31, 2016. The decrease in stock-based compensation expense is due to the 7.3 million stock options granted to directors, officers and employees of the Company during the year ended December 31, 2016, of which one-third vested immediately, compared to 2.5 million options granted to an officer of the Company during the year ended December 31, 2017 where all options cliff vest after three years.

## **RELATED PARTY TRANSACTIONS**

### ***TRANSACTIONS WITH AFRICA OIL CORP ("AOC"):***

At December 31, 2017, AOC owned 28.5% of the common shares of Africa Energy.

Under the terms of the General Management and Service Agreement between AOC and the Company for the provision of management and administrative services, AOC invoiced the Company \$0.1 million during the year ended December 31, 2017 (2016, \$0.1 million). At December 31, 2017, the outstanding balance payable to AOC was \$ nil (at December 31, 2016, \$ nil). The management fee charged to the Company by AOC is for the provision of management and administrative services and is intended to cover the administrative and salary costs paid by AOC.

During the year ended December 31, 2017, AOC invoiced the Company \$0.1 million for reimbursable expenses paid by AOC on behalf of the Company (2016, \$0.1 million). At December 31, 2017, the outstanding balance payable to AOC was \$ nil (at December 31, 2016, \$0.06 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 relate to the Company's stock option plan.

<b>For the years ended December 31,</b>	<b>2017</b>	<b>2016</b>
Directors' fees	\$ 104	\$ 102
Directors' share-based compensation	32	112
Management's short-term wages, bonuses and benefits	1,165	1,086
Management's share-based compensation	92	156
	<b>\$ 1,393</b>	<b>\$ 1,456</b>

## **COMMITMENTS AND CONTINGENCIES**

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

Under the terms of the Block 2B Exploration Right, the Company and its partner have fulfilled the obligations of the First Renewal Period that was set to expire in March 2017. Prior to the expiry, and in accordance with the terms of the Exploration Right for Block 2B, the Company submitted an application for entry into the Second Renewal Period. Subsequent to year end, the Company received notification from the Petroleum Agency of South Africa that its application for renewal had been approved. The Second Renewal Period of the Block 2B Exploration Right is for a period of two years commencing February 20, 2018. During the Second Renewal Period, the joint venture partners are obligated to perform studies and evaluations to determine potential commerciality, and economic sensitivity modelling to establish whether the drilling of a well could prove up potentially commercial oil volumes. If it is determined that drilling could prove up potentially commercial oil volumes, then the joint venture partners are obligated to drill an exploration well on Block 2B.

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.

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 farmin agreement with a subsidiary of Crown, the Company is obligated to fund Crown's remaining 10% participating interest of costs associated with the drilling and testing of the next well in Block 2B.

### ***PEL 37, REPUBLIC OF NAMIBIA***

Subsequent to year end, the joint venture partnership in PEL 37 received notification from Ministry of Mines and Energy in Namibia that its application for entry into the Second Renewal Period had been approved. The Second Renewal Period is for a period of two years commencing March 28, 2018, and includes an obligation to drill an exploration well on PEL 37.

Under the Share Subscription Agreement with Pancontinental, the Company is obligated to pay an additional \$5.5 million upon spud of the first exploration well, provided that certain commercial conditions exist on the spud date, including its pro rata portion of exploration drilling costs of one well in the Second Renewal Period being funded by another joint venture partner. If the Company fails to fund the contingent consideration when it becomes due, all

shares acquired by the Company will be cancelled and the Company will lose its right to recover any amounts previously funded at that time.

Management has assessed the likelihood and timing of future drilling and has accrued \$4.5 million of contingent consideration in accounts payable and accrued liabilities. In determining the likelihood and timing of future drilling, Management has considered the current political environment in Namibia, status of the joint venture partner's application for entry into the next exploration period, status of procurement and the joint venture's commitment to a drilling rig, current oil price environment and access to capital.

### **PROPERTY LEASE CONTRACTS**

The Company has committed to future minimum payments at December 31, 2017 under a South African operating lease for the rental of office space, including a proportionate share of operating costs as follows:

<u>(thousands)</u>	
2018	83
2019	21
Total minimum payments	\$ 104

### **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	319,195,469
Outstanding share purchase options	16,076,666
Full dilution impact on common shares outstanding	335,272,135

Subsequent to the end of the year, 18,334 options were exercised.

### **OFF-BALANCE SHEET ARRANGEMENTS**

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

### **CRITICAL ACCOUNTING ESTIMATES**

The Company's critical accounting estimates are defined as those estimates that have a significant impact on the portrayal of its financial position and operations and that require management to make judgments, assumptions and estimates in the application of IFRS. Judgments, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgments, assumptions and estimates may be subject to change. The Company believes the following are the critical accounting estimates used in the preparation of its consolidated financial statements. The Company's significant accounting policies can be found in the Company's Financial Statements for the year ended December 31, 2017.

## ***USE OF ESTIMATES***

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

## ***INTANGIBLE EXPLORATION ASSETS***

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

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

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

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

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

### **STOCK-BASED COMPENSATION**

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

### **CONTINGENT CONSIDERATION**

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

### **INCOME TAX**

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

## **NEW ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES**

There are no new standards or amendments to existing standards effective January 1, 2017.

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018 and have not been applied in preparing these financial statements.

### **IFRS 9: FINANCIAL INSTRUMENTS**

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

prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company has assessed the impact of IFRS 9 and has determined that IFRS 9 will not materially impact the quantitative disclosures on the financial statements.

### ***IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS***

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

### ***IFRS 16: LEASES***

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

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

## **RISK FACTORS**

The Company is subject to various risks and uncertainties, including, but not limited to, those listed below. Refer to the Company's Annual Information Form dated April 30, 2017 on Sedar ([www.sedar.com](http://www.sedar.com)) for further risk factor disclosures.

### ***INTERNATIONAL OPERATIONS***

Africa Energy participates in oil and gas projects located in emerging markets. Oil and gas exploration, development and production activities in these emerging markets are subject to significant political and economic uncertainties that 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 Africa Energy's business, prospects and results of operations. In addition, if legal disputes arise related to oil and gas concessions acquired by the Company, Africa Energy could be subject to the jurisdiction of courts other than those of Canada. The Company's recourse may be very limited in the event of a breach by a government or government authority of an agreement governing a concession in which Africa Energy acquires an interest. The Company may require licenses or permits from various governmental authorities to carry out future exploration, development and production activities. There can be no assurance that Africa Energy will be able to obtain all necessary licenses and permits when required.

## ***RISKS RELATING TO SOUTH AFRICAN REGULATIONS***

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

## ***CAPITAL REQUIREMENTS***

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

## ***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.

## ***DIFFERENT LEGAL SYSTEM AND LITIGATION***

The South African and Namibian legal system differs in various degrees from that of Canada. Rules, regulations and legal principles may differ both relating to matters of substantive law and in respect of such matters as court procedure and enforcement. Almost all material production and exploration rights and related contracts of the Company will be subject to the national or local laws of South Africa 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 would become involved in legal disputes in order to defend or enforce any of its rights or obligations under such concessions, licenses, agreements or otherwise, such disputes or related litigation may be costly, time consuming and the

outcome may be highly uncertain. Even if the Company would ultimately prevail, such disputes and litigation may still have a substantially negative effect on the Company and its operations.

### ***UNCERTAINTY OF TITLE***

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

### ***COMPETITION***

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

### ***RISKS INHERENT IN OIL AND GAS EXPLORATION AND DEVELOPMENT***

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

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

The Company is exposed to changes in foreign exchange rates as expenses in international subsidiaries, oil and gas expenditures, or financial instruments may fluctuate due to changes in rates. The Company's exposure to foreign currency exchange risk is mitigated by the fact that the Company sources the majority of its capital projects and expenditures in US dollars. Africa Energy had no forward exchange contracts in place as at or during the year ended December 31, 2017.

### ***INTEREST RATE RISK***

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



## **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, 2017, the Company held \$0.6 million of cash in financial institutions outside of Canada where there could be increased exposure to credit risk.

## **FORWARD LOOKING STATEMENTS**

Certain statements in this document are “forward-looking statements”. Forward-looking statements are statements that are not historical fact and are generally identified by words such as “believes”, “anticipates”, “expects”, “estimates”, “pending”, “intends”, “plans”, “will” or similar words suggesting future outcomes. By their nature, forward-looking statements and information involve assumptions, inherent risks and uncertainties, many of which are difficult to predict, and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward-looking statements and information. Risks and uncertainties include, but are not limited to, risk with respect to general economic conditions, regulations and taxes, civil unrest, corporate restructuring and related costs, capital and operating expenses, pricing and availability of financing and currency exchange rate fluctuations. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements.

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

Any statements regarding the following are forward-looking statements:

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

- future drilling of new wells;
- ultimate recoverability of current and long-term assets;
- ultimate recoverability of reserves or resources;
- expected finding and development costs;
- expected operating costs;
- estimates on a per share basis;
- future foreign currency exchange rates;
- future market interest rates;
- future expenditures and future allowances relating to environmental matters;
- dates by which certain areas will be developed or will come on stream or reach expected operating capacity; and
- changes in any of the foregoing.

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

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

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

The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these factors are interdependent, and management’s future course of action would depend on our assessment of all information at that time. Although we believe that the expectations conveyed by the forward-looking statements are reasonable based on information available to us on the date such forward-looking statements were made, no assurances can be given as to future results, levels of activity and achievements.

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



February 28, 2018

## **Independent Auditor's Report**

### **To the Shareholders of Africa Energy Corp.**

We have audited the accompanying consolidated financial statements of Africa Energy Corp. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 and the consolidated statements of net loss and comprehensive loss, equity attributable to common shareholders and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

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

#### **Auditor's responsibility**

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

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

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

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*PricewaterhouseCoopers LLP*  
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**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Africa Energy Corp. and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants**

# AFRICA ENERGY CORP.

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

		December 31, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Note</b>			
Current assets			
Cash and cash equivalents		\$ 3,132	\$ 10,179
Accounts receivable		125	164
Prepaid expenses		206	268
		3,463	10,611
Long-term assets			
Investment in associates	7	7,267	-
Property and equipment	8	49	104
Intangible exploration assets	9	6,678	6,521
		13,994	6,625
Total assets		\$ 17,457	\$ 17,236
<b>LIABILITIES AND EQUITY ATTRIBUTABLE TO COMMON SHAREHOLDERS</b>			
Current liabilities			
Accounts payable and accrued liabilities	7	\$ 5,335	\$ 509
Due to related party	15	-	57
		5,335	566
Total liabilities		5,335	566
Equity attributable to common shareholders			
Share capital	10	108,246	108,246
Contributed surplus	11	4,497	4,301
Deficit		(100,621)	(95,877)
Total equity attributable to common shareholders		12,122	16,670
Total liabilities and equity attributable to common shareholders		\$ 17,457	\$ 17,236
Commitments and contingencies	20		

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

Approved on behalf of the Board:

*"IAN GIBBS"*

IAN GIBBS, DIRECTOR

*"ASHLEY HEPPENSTALL"*

ASHLEY HEPPENSTALL, DIRECTOR

# AFRICA ENERGY CORP.

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

For the years ended		December 31, 2017	December 31, 2016
	<b>Note</b>		
Operating expenses			
Salaries and benefits		\$ 2,791	\$ 2,168
Stock-based compensation	11	196	478
Travel		296	325
Management fees	15	129	136
Consulting fees		382	314
New venture costs		315	44
Office and general		468	456
Depreciation	8	59	65
Professional fees		498	343
Stock exchange and filing fees		55	41
Share of loss from equity investments	7	11	-
		5,200	4,370
Finance income	14	(456)	(172)
Net loss and comprehensive loss attributable to common shareholders		(4,744)	(4,198)
Net loss per share	17		
Basic		\$ (0.01)	\$ (0.02)
Diluted		\$ (0.01)	\$ (0.02)
Weighted average number of shares outstanding for the purpose of calculating earnings per share	17		
Basic		319,177,135	254,993,528
Diluted		319,177,135	254,993,528

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)

		December 31, 2017	December 31, 2016
	<b>Note</b>		
<b>Share capital:</b>	10(b)		
Balance, beginning of the year		\$ 108,246	\$ 94,685
Acquisition of Thombo		-	2,721
Private placement, net of issue costs		-	10,840
<u>Balance, end of the year</u>		<u>108,246</u>	<u>108,246</u>
<b>Contributed surplus:</b>			
Balance, beginning of the year		\$ 4,301	\$ 3,823
Stock-based compensation	11	196	478
<u>Balance, end of the year</u>		<u>4,497</u>	<u>4,301</u>
<b>Deficit:</b>			
Balance, beginning of the year		\$ (95,877)	\$ (91,679)
Net loss for the year		(4,744)	(4,198)
<u>Balance, end of the year</u>		<u>(100,621)</u>	<u>(95,877)</u>
<u>Equity attributable to common shareholders</u>		<u>\$ 12,122</u>	<u>\$ 16,670</u>

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

# AFRICA ENERGY CORP.

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

For the years ended		December 31, 2017	December 31, 2016
Cash flows provided by (used in):	<b>Note</b>		
Operations:			
Net loss for the year		\$ (4,744)	\$ (4,198)
Item not affecting cash:			
Stock-based compensation	11	196	478
Depreciation	8	59	65
Share of loss from equity investments	7	11	-
Unrealized foreign exchange gain		(395)	(163)
Changes in non-cash operating working capital	21	844	(592)
		(4,029)	(4,410)
Investing:			
Property and equipment expenditures	8	(4)	(63)
Intangible exploration expenditures	9	(157)	(424)
Acquisition of Block 2B	5, 6(i)	-	(3,232)
Investment in joint ventures	7	(7,278)	-
Changes in non-cash investing working capital	21	4,083	331
		(3,356)	(3,388)
Financing:			
Common shares issued	10(b)	-	11,162
Share issuance costs	10(b)	-	(322)
Advances from related party	15	243	234
Payments to related party	15	(300)	(264)
		(57)	10,810
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		395	163
Increase (decrease) in cash and cash equivalents		(7,047)	3,175
Cash and cash equivalents, beginning of the year		\$ 10,179	\$ 7,004
Cash and cash equivalents, end of the year		\$ 3,132	\$ 10,179
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, 2017 and 2016

(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 and production 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 2600, 1066 West Hastings Street, Vancouver, BC, V6C 3X1.

Africa Energy is an exploration-stage enterprise that currently has no proved reserves. In 2015, the Company decided to take advantage of the downturn in oil prices and aggressively pursue exploration and production assets in Africa. In October 2016, the Company acquired a 90% participating interest in the offshore Exploration Right for Block 2B, in the Republic of South Africa ("Block 2B"). In September 2017, the Company acquired one-third of the shares in a wholly-owned subsidiary of Pancontinental Oil and Gas N.L. ("Pancontinental") that holds a 30% participating interest in offshore Petroleum Exploration License 37 in the Republic of Namibia ("PEL 37"). In November 2017, Main Street 1549 Proprietary Limited ("Main Street 1549"), an entity owned 49% by the Company, entered into farmin agreements to acquire a 10% participating interest in the Exploration Right for Block 11B/12B offshore the Republic of South Africa ("Block 11B/12B") that will result in the Company holding an effective 4.9% interest upon close. Closing of the Block 11B/12B farmin transactions is subject to standard conditions for a transaction of this type, including approval of the South African government and the TSX Venture Exchange. Africa Energy continues to review upstream oil and gas opportunities across Africa.

Oil and gas exploration, development and production activities in emerging markets are subject to significant uncertainties that may adversely affect the Company's operations. Uncertainties include, but are not limited to, the risk of war, terrorism, civil unrest, expropriation, nationalization or other title dispute challenges, renegotiation or nullification of existing or future concessions and contracts, the imposition of international sanctions, a change in crude oil or natural gas pricing policies, a change to laws and regulations, a change in taxation policies, and the imposition of currency controls, in addition to the risks associated with exploration activities. 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.

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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

## 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 February 28, 2018, the date the Board of Directors approved the statements.

The comparative figures have been reclassified to conform to the current year financial statement presentation.

### 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 18) 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 9).

#### 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 11).

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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

iii) Valuation of contingent consideration:

The valuation of contingent consideration is based on management's best estimate and relies on information available during the preparation of the consolidated financial statements. Management will review and revise the valuation of contingent consideration as more information becomes available (see note 20).

iv) 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 7).

### 3) Significant accounting policies:

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

a) Basis of consolidation:

i) Subsidiaries:

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

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

ii) Jointly controlled operations and jointly controlled assets:

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

iii) Transactions eliminated on consolidation:

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

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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

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. A joint venture is where the parties to the joint arrangement have rights to the net assets of the arrangement. Investments of this nature are recorded at original cost. The investment is adjusted periodically for the Company's share of the profit or loss of the investment after the date of acquisition. Distributions received reduce the carrying amount of the investment.

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

c) Foreign currency:

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

d) Property and equipment and Intangible exploration assets:

i) *Pre-exploration expenditures:*

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

ii) *Exploration expenditures:*

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

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

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

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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

## *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.

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

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

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

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

### ii) Non-financial assets:

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

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

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

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

g) Stock-based compensation:

The Company has a stock option plan as described in note 11. 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.

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

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

j) Earnings per share:

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

k) Financial instruments:

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

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

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

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

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

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*ii) Available-for-sale investments:*

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

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

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

*iii) Loans and receivables:*

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

*iv) Financial liabilities at amortized cost:*

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

*l) Provisions:*

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

*Decommissioning obligations:*

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



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## 4) New accounting standards:

There are no new standards or amendments to existing standards effective January 1, 2017.

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018, and have not been applied in preparing these financial statements.

### *IFRS 9: Financial instruments*

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

### *IFRS 15: Revenue from contracts with customers*

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

### *IFRS 16: Leases*

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

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

## 5) Asset acquisitions:

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

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

The Company paid \$1.0 million to acquire all the shares of Main Street 840, a subsidiary of Afren plc (in Administration), holding a 25% participating interest in Block 2B.

ii) Thombo Petroleum Ltd. ("Thombo")

The Company paid \$2.0 million less obligations outstanding at the effective date and issued 14.8 million new common shares of the Company at a price of CAD \$0.24 per share to acquire all the shares of Thombo, a privately held company holding a 34.5% participating interest and operatorship in Block 2B. The Company may be required 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 (see Note 20). Due to management's assessment of the likelihood and timing of the milestone payments, there has been no value assigned to the contingent consideration.

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

The financial results of Main Street 840 and Thombo have been included in the Company's consolidated financial statements since the closing date.

The below amounts are estimates made by management during the preparation of these consolidated financial statements based on information then available.

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

	Thombo	Main Street 840	Total
<b>Net assets acquired:</b>			
Cash and cash equivalents	\$ 31	\$ -	\$ 31
Accounts receivable	9	-	9
Intangible exploration assets	4,732	1,034	5,766
Accounts payable and accrued liabilities	(119)	(34)	(153)
<b>Total net assets acquired</b>	<b>\$ 4,653</b>	<b>\$ 1,000</b>	<b>\$ 5,653</b>
<b>Consideration</b>			
Shares issued	\$ 2,721	\$ -	\$ 2,721
Cash issued	1,932	1,000	2,932
<b>Total purchase price</b>	<b>\$ 4,653</b>	<b>\$ 1,000</b>	<b>\$ 5,653</b>

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## 6) Farmin:

### i) Crown Energy AB ("Crown")

On October 21, 2016, the Company completed a farmin agreement with a subsidiary of Crown to acquire a 30.5% participating interest in Block 2B. As part of the transaction, the Company paid \$0.3 million for the reimbursement of historical costs net to Crown. In addition, the Company will fund Crown's remaining 10% participating interest associated with the drilling and testing of the next well on Block 2B.

Together with the acquisition of Main Street 840 and Thombo, the Company now holds a 90% participating interest and operatorship in Block 2B.

## 7) Investment in associates:

During the years ended December 31, 2017 and 2016, the Company made the following investment in associates:

	December 31, 2017	December 31, 2016
Pancontinental Namibia Pty Ltd. ("Pancontinental Namibia")	\$ 6,777	\$ -
Main Street 1549	490	-
Total Investment	\$ 7,267	\$ -

The Company has determined that the investments in Pancontinental Namibia and Main Street 1549 are not impaired.

### i) Pancontinental Namibia:

	December 31, 2017	December 31, 2016
Balance, beginning of the year	\$ -	\$ -
Acquisition of shares	2,200	-
Contingent consideration accrued	4,500	-
Legal costs associated with acquisition	64	-
Funds contributed to Pancontinental Namibia	24	-
Share of loss from equity investment	(11)	-
Balance, end of the year	\$ 6,777	\$ -

On September 13, 2017, the Company completed the acquisition of one-third of the shares of Pancontinental Namibia, a private Australian entity that holds a 30% participating interest in PEL 37 offshore the Republic of Namibia. The Company paid Pancontinental Namibia \$2.2 million at closing and will pay an additional \$5.5 million upon spud of the first exploration well provided that certain commercial conditions exist on the spud date. Management has assessed the likelihood and timing of future drilling and has accrued \$4.5 million of contingent consideration in accounts payable and accrued liabilities.

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The investment in Pancontinental Namibia is accounted for using the equity method. The Company's share of losses during the period since the date of acquisition amounted to \$0.01 million. During the year ended December 31, 2017, \$0.06 million in legal expenses relating to the acquisition of Pancontinental were capitalized. The Company has advanced \$0.02 million during the year to cover Pancontinental Namibia's overhead and PEL 37 cash calls.

The following is a financial summary of Pancontinental Namibia:

	<b>December 31, 2017</b>
Other current assets	\$ 79
Cash and cash equivalents included in current assets	13
Non-current assets <sup>(1)</sup>	22,790
Current liabilities	(89)
Advances from Pancontinental Oil & Gas NL and Africa Energy	(2,463)
Net Assets of Pancontinental Namibia	\$ 20,330
Percentage of ownership	33%
Proportionate share of Pancontinental Namibia's net assets	\$ 6,777

	<b>December 31, 2017</b>
Net loss and comprehensive loss	\$ (45)
Proportionate share of Pancontinental Namibia's net loss <sup>(2)</sup>	\$ (11)

(1) At December 31, 2017, the Company increased the carrying value of non-current assets, which consists of intangible exploration assets, by \$18.2 million in consideration of the purchase price discrepancy at the time of initial investment.

(2) The proportionate share of Pancontinental Namibia's net loss is prorated based on the date the acquisition was completed.

ii) Main Street 1549:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Balance, beginning of the year	\$ -	\$ -
Funds advanced to Main Street 1549	490	-
Balance, end of the year	\$ 490	\$ -

Africa Energy holds 49% of the common shares of Main Street 1549, a private South African entity. In November 2017, Main Street 1549 entered into farmin agreements with each of Total E&P South Africa BV ("Total"), a wholly-owned subsidiary of Total SA, and CNR International (South Africa) Limited ("CNRI"), a wholly-owned subsidiary of Canadian Natural Resources Limited, to acquire an aggregate 10% participating interest in the Exploration Right for Block 11B/12B offshore the Republic of South Africa. Main Street 1549 paid a deposit of \$1.0 million at signature (\$0.5 million net to the Company) and will pay an additional \$6.9 million net to the Company for past costs at closing. Main Street 1549 has agreed to fund a portion of Total and CNRI's costs for the first exploration well to a maximum of \$7.6 million net to the Company, plus certain contingent payments due at various milestones associated with commercialization of hydrocarbons in Block

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11B/12B. Closing is subject to standard conditions for a transaction of this type, including approval of the South African government and the TSX Venture Exchange.

The following is a financial summary of Main Street 1549:

	<b>December 31, 2017</b>	
Current assets	\$	1,000
Percentage of ownership		49%
Proportionate share of Main Street 1549's net assets	\$	490

## 8) Property and equipment:

	<b>December 31, 2017</b>		<b>December 31, 2016</b>	
Cost, beginning of the year	\$	192	\$	129
Additions		4		63
Cost, end of the year		196		192
Accumulated depreciation, beginning of the year		(88)		(23)
Depreciation		(59)		(65)
Accumulated depreciation, end of the year		(147)		(88)
Net carrying amount, beginning of the year	\$	104	\$	106
Net carrying amount, end of the year	\$	49	\$	104

During the years ended December 31, 2017 and 2016, the Company purchased property and equipment for its technical office located in Cape Town, South Africa.

## 9) Intangible exploration assets:

	<b>December 31, 2017</b>		<b>December 31, 2016</b>	
Net carrying amount, beginning of the year	\$	6,521	\$	-
Intangible exploration expenditures		157		424
Farmout (Note 6)		-		331
Acquisitions (Note 5)		-		5,766
Net carrying amount, end of the year	\$	6,678	\$	6,521

As at December 31, 2017, \$6.7 million of exploration expenditures have been capitalized as intangible exploration assets (December 31, 2016, \$6.5 million). These expenditures relate to the acquisition of a 90% participating interest in Block 2B, which occurred during the fourth quarter of 2016, as well as geological and geophysical studies and general and administrative costs directly related to Block 2B.

During the year ended December 31, 2017, the Company capitalized \$0.09 million of general and administrative expenses related to intangible exploration assets (December 31, 2016, \$0.07 million).

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## 10) Share capital:

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

b) Issued:

	December 31, 2017		December 31, 2016	
	Shares	Amount	Shares	Amount
Balance, beginning of the year	319,177,135	\$ 108,246	244,377,135	\$ 94,685
Acquisition of Thombo Petroleum Ltd	-	-	14,800,000	2,721
Private placement, net of issue costs	-	-	60,000,000	10,840
Balance, end of the year	319,177,135	\$ 108,246	319,177,135	\$ 108,246

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

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

## 11) Share purchase options:

At the Annual General and Special Meeting held on July 6, 2017, 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, 2017		December 31, 2016	
	Number of options	Weighted average exercise price (CAD\$)	Number of options	Weighted average exercise price (CAD\$)
Outstanding, beginning of the year	15,479,500	0.16	8,399,500	0.19
Granted	2,500,000	0.17	7,310,000	0.12
Expired	(1,884,500)	0.30	(230,000)	0.18
Balance, end of the year	16,095,000	0.14	15,479,500	0.16

i) No stock options were exercised during the years ended December 31, 2017 or 2016.

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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, 2017 and 2016 were estimated on the date of grant using the following weighted average assumptions:

	2017	2016
Number of options granted during the year	2,500,000	7,310,000
Fair value of options granted (CAD\$)	0.12	0.09
Risk-free interest rate (%)	1.57	0.54
Expected life (years)	3.00	3.00
Expected volatility (%)	121	121
Expected dividend yield	-	-

Options granted 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 Company recognized \$0.2 million in stock-based compensation expense for the year ended December 31, 2017 (December 31, 2016, \$0.5 million).

The following table summarizes information regarding stock options outstanding at December 31, 2017:

Weighted average exercise price (CAD\$/share)	Options outstanding	Weighted average remaining contractual life in years
0.17	4,885,000	2.19
0.13	1,420,000	2.62
0.11	1,850,000	3.26
0.125	5,440,000	3.38
0.17	2,500,000	4.51
0.14	16,095,000	3.11

As at December 31, 2017, 11,165,000 stock options were exercisable.

## 12) 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

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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, 2017, the Company held \$0.6 million of cash in financial institutions outside of Canada where there could be increased exposure to credit risk.

## b) Liquidity risk:

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

The Company actively monitors its liquidity to ensure that its cash flows and working capital are adequate to support these financial obligations and the Company's capital programs. The Company will also adjust the pace of its exploration activities to manage its liquidity position.

To finance its future acquisition, exploration, development and operating costs, Africa Energy will require financing from external sources, potentially including the issuance of new shares, issuance of debt or executing working interest farmout or disposition arrangements. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to Africa Energy.

## c) Market risk:

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

### i) Foreign currency exchange rate risk:

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

For the year ended December 31, 2017, a 5% increase or decrease in the value of the Canadian dollar and South African Rand in relation to the US dollar, which is the Company's functional currency, and using the ending Canadian dollar and South African Rand cash balances would have resulted in an approximately \$0.1 million (2016, \$0.3 million) increase or decrease in foreign exchange gains/losses in US dollars.

At December 31, 2017, the Company had \$2.0 million Canadian dollars (2016, \$8.8 million Canadian dollars) and 9.5 million South African Rand (2016, 3.7 million South African Rand) in cash and cash equivalents.



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ii) Interest rate risk:

As at December 31, 2017, 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.

### 13) 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.

<b>For the years ended</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Equity	\$ 12,122	\$ 16,670
Net working capital <sup>(1)</sup>	1,872	(10,045)
<b>Total capitalization</b>	<b>\$ 13,994</b>	<b>\$ 6,625</b>

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

### 14) Finance income and expense:

Finance income and expense for the years ended December 31, 2017 and 2016 is comprised of the following:

<b>For the years ended</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Interest and other income	\$ (61)	\$ (9)
Foreign exchange gain	(395)	(163)
<b>Finance income</b>	<b>\$ (456)</b>	<b>\$ (172)</b>

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

# AFRICA ENERGY CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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

## 15) Related party transactions:

### a) Transactions with AOC:

At December 31, 2017, AOC owned 28.5% of the common shares of Africa Energy.

Under the terms of the General Management and Service Agreement between AOC and the Company for the provision of management and administrative services, AOC invoiced the Company \$0.1 million during the year ended December 31, 2017 (2016, \$0.1 million). At December 31, 2017, the outstanding balance payable to AOC was \$ nil (at December 31, 2016, \$ nil). The management fee charged to the Company by AOC is for the provision of management and administrative services and is intended to cover the administrative and salary costs paid by AOC.

During the year ended December 31, 2017, AOC invoiced the Company \$0.1 million, for reimbursable expenses paid by AOC on behalf of the Company (2016, \$0.1 million). At December 31, 2017, the outstanding balance payable to AOC was \$ nil (at December 31, 2016, \$0.06 million).

### b) Remuneration of Directors and Senior Management:

Remuneration of Directors and Senior Management includes all amounts earned and awarded to the Company's Board of Directors and Senior Management. Senior Management includes the Company's President and Chief Executive Officer, Chief Financial Officer 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 December 31,</b>	<b>2017</b>	<b>2016</b>
Directors' fees	\$ 104	\$ 102
Directors' share-based compensation	32	112
Management's short-term wages, bonuses and benefits	1,165	1,086
Management's share-based compensation	92	156
	<b>\$ 1,393</b>	<b>\$ 1,456</b>

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## 16) 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 December 31,</b>	<b>2017</b>	<b>2016</b>
Net loss and comprehensive loss	\$ (4,744)	\$ (4,198)
Combined federal and provincial statutory income tax rate	27.0%	27.0%
Expected tax recovery	(1,281)	(1,133)
Stock-based compensation	53	129
Loss taxed at a different rate	(34)	(30)
Non-taxable expense items	31	15
Unrecognized tax losses	1,231	1,019
Tax recovery	\$ -	\$ -

The Company has the following un-booked deductible temporary differences at December 31, 2017 and 2016:

	<b>2017</b>	<b>2016</b>
Unbooked deductible temporary differences		
Share issue costs	\$ 264	\$ 400
Non-capital losses carried forward	47,762	43,374
Charitable Donations	403	403
	\$ 48,429	\$ 44,177

The Company has non-capital losses carry forward of \$18.5 million in Canada which begin expiring 2032 and non-capital losses carry forward of \$29.2 million in South Africa which relate to the acquisition of Main Street 840. The non-capital losses in South Africa do not expire.

## 17) Net Loss Per Share:

<b>For the years ended</b>	<b>December 31, 2017</b>			<b>December 31, 2016</b>		
	Earnings	Weighted Average		Earnings	Weighted Average	
Number of shares		Per share amounts	Number of shares		Per share amounts	
Basic earnings per share						
Net loss attributable to common shareholders	\$ (4,744)	319,177,135	\$ (0.01)	\$ (4,198)	254,993,528	\$ (0.02)
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	\$ (4,744)	319,177,135	\$ (0.01)	\$ (4,198)	254,993,528	\$ (0.02)

For the year ended December 31, 2017, 16,095,000 options were anti-dilutive and were not included in the calculation of dilutive loss per share (December 31, 2016, 15,479,500).

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## 18) Subsidiaries:

The Company has the following wholly owned subsidiaries; Canmex Holdings (Bermuda) I Ltd. (Bermuda), Canmex Holdings (Bermuda) II Ltd. (Bermuda), Africa Energy Holdings (Bermuda) I Ltd. (Bermuda), Africa Energy SA Corp. (Canada), Thombo Petroleum Ltd. (United Kingdom), Main Street 840 (Proprietary) Limited (South Africa) and 1132518 B.C. Ltd. (Canada). All of the Company's subsidiaries are engaged in oil and gas exploration activities.

## 19) Financial Instruments:

Assets and liabilities at December 31, 2017 that are measured at fair value are classified into levels reflecting the method used to make the measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

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

## 20) Commitments and Contingencies:

### a) PSA and Agreement Commitments

#### **Block 2B**

Under the terms of the Block 2B Exploration Right, the Company and its partner have fulfilled the obligations of the First Renewal Period that was set to expire in March 2017. Prior to the expiry, and in accordance with the terms of the Exploration Right for Block 2B, the Company submitted an application for entry into the Second Renewal Period. Subsequent to year end, the Company received notification from the Petroleum Agency of South Africa that its application for renewal had been approved. The Second Renewal Period of the Block 2B Exploration Right is for a period of two years commencing February 20, 2018. During the Second Renewal Period, the joint venture partners are obligated to perform studies and evaluations to determine potential commerciality, and economic sensitivity modelling to establish whether the drilling of a well could prove up potentially commercial oil volumes. If it is determined that drilling could prove up potentially commercial oil volumes, then the joint venture partners are obligated to drill an exploration well on Block 2B.

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;

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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.

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

## PEL 37

Subsequent to year end, the joint venture partnership in PEL 37 received notification from Ministry of Mines and Energy in Namibia that its application for entry into the Second Renewal Period had been approved. The Second Renewal Period is for a period of two years commencing March 28, 2018, and includes an obligation to drill an exploration well on PEL 37.

Under the Share Subscription Agreement with Pancontinental, the Company is obligated to pay an additional \$5.5 million upon spud of the first exploration well, provided that certain commercial conditions exist on the spud date, including its pro rata portion of exploration drilling costs of one well in the Second Renewal Period being funded by another joint venture partner. If the Company fails to fund the contingent consideration when it becomes due, all shares acquired by the Company will be cancelled and the Company will lose its right to recover any amounts previously funded at that time.

Management has assessed the likelihood and timing of future drilling and has accrued \$4.5 million of contingent consideration in accounts payable and accrued liabilities. In determining the likelihood and timing of future drilling, Management has considered the current political environment in Namibia, status of the joint venture partner's application for entry into the next exploration period, status of procurement and the joint venture's commitment to a drilling rig, current oil price environment and access to capital.

## b) Office and housing leases

The Company has committed to future minimum payments at December 31, 2017 under a South African operating lease for the rental of office space, including a proportionate share of operating costs as follows:

2018	83
2019	21
Total minimum payments	\$ 104

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## 21) Supplementary Information:

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

<b>For the years ended</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Changes in non-cash working capital		
Accounts receivable	\$ 39	\$ (42)
Prepaid expenses	62	(122)
Accounts payable and accrued liabilities	4,826	47
	<b>\$ 4,927</b>	<b>\$ (117)</b>
Non-cash working capital acquired	-	(144)
	<b>\$ 4,927</b>	<b>\$ (261)</b>
Relating to:		
Operating activities	\$ 844	\$ (592)
Investing activities	4,083	331
Changes in non-cash working capital	<b>\$ 4,927</b>	<b>\$ (261)</b>