AFRICA ENERGY CORP.

Report to Shareholders

March 31, 2017

AFRICA ENERGY CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Amounts expressed in United States dollars unless otherwise indicated)

For the three months ended March 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. In order to better understand the MD&A, it should be read in conjunction with the Company's unaudited consolidated financial statements for the three months ended March 31, 2017 and 2016 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2016 and 2015 and related notes thereto.

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

The effective date of this MD&A is May 11, 2017.

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

PROFILE AND STRATEGY

Africa Energy is a Canadian-based company whose common shares are traded on the TSX Venture Exchange under the symbol "AFE". The Company is an international oil and gas exploration and development company that holds a 90% participating interest in Block 2B, offshore Republic of South Africa. As at March 31, 2017, Africa Oil Corp. ("AOC") owned 28.5% of the issued and outstanding common shares of Africa Energy.

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

OPERATIONS UPDATE

BLOCK 2B, REPUBLIC OF SOUTH AFRICA

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

The following three transactions closed on October 21, 2016:

Afren plc ("Afren")

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

Thombo Petroleum Ltd. ("Thombo")

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

Crown Energy AB ("Crown")

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

PETROLEUM EXPLORATION LICENCE 37, REPUBLIC OF NAMIBIA

During March 2017, the Company terminated the farmout agreement entered into on November 29, 2016 with a subsidiary of Pancontinental Oil & Gas N.L. Pursuant to the farmout agreement, the Company was to acquire a 10% participating interest in Petroleum Exploration Licence 37 offshore, Republic of Namibia. Africa Energy exercised its right to terminate the farmout agreement as a result of due diligence procedures performed by the Company which identified discrepancies in respect of certain agreed commercial terms of the farmout transaction.

OUTLOOK

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

FINANCING UPDATE

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

SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share amounts)	**31-Mar 2017**	**31-Dec 2016**	**30-Sep 2016**	**30-Jun 2016**	**31-Mar 2016**	**31-Dec 2015**	**30-Sep 2015**	**30-Jun 2015**
Operating expenses ($)	(1,037)	(910)	(1,048)	(1,223)	(1,189)	(1,172)	(692)	(531)
Foreign exchange gain (loss) ($)	41	40	3	(3)	123	(53)	(102)	20
Net loss ($)	(980)	(866)	(1,044)	(1,224)	(1,064)	(1,223)	(792)	(508)
Weighted average shares - Basic	319,177	286,612	244,377	244,377	244,377	130,586	129,335	129,335
Weighted average shares - Diluted	319,177	286,612	244,377	244,377	244,377	130,586	129,335	129,335
Basic loss per share ($)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.01)	(0.01)	(0.00)
Diluted loss per share ($)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.01)	(0.01)	(0.00)
Oil and gas expenditures ($)	(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 second quarter of 2015 through to the third quarter of 2015. Operating costs increased for the fourth quarter of 2015 compared to the third quarter of 2015 due to an increase in transaction related professional fees incurred in the fourth quarter of 2015 as well as an increase in office and general costs mainly relating to technical software license fees. The transaction related professional fees are a direct result of ongoing activity by the Company with respect to new ventures, including fees associated with the three South African transactions in respect of Block 2B. Operating costs were relatively consistent from the fourth quarter of 2015 through to the first quarter of 2017, with the exception of the fourth quarter of 2016 where operating expenses were slightly lower due to $0.2 million of professional fees directly related to acquisitions being capitalized to intangible exploration assets in the fourth quarter of 2016.

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

Weighted average shares increased as a result of the financings that closed in November 2016 and December 2015.

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

RESULTS OF OPERATIONS

For the three months ended March 31, (thousands)		2017		2016
Salaries and benefits	$	574	$	609
Stock-based compensation		74		98
Travel		59		74
Management fees		32		40
Consulting fees		62		57
Office and general		133		185
Depreciation		17		18
Professional fees		75		98
Stock exchange and filing fees		11		10
Operating expenses	$	1,037	$	1,189

Operating expenses decreased $0.2 million for the three months ended March 31, 2017 compared to the same period in 2016. The majority of the decrease can be attributed to the Company capitalizing $0.08 million of operating expenses directly related to geological and geophysical work performed on Block 2B.

INTANGIBLE EXPLORATION ASSETS

(thousands)		March 31, 2017		December 31, 2016
Intangible exploration assets	$	6,601	$	6,521

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

During the three months ended March 31, 2017, the Company capitalized $0.06 million of general and administrative expenses related to Block 2B.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2017, the Company had cash of $9.3 million and working capital of $9.1 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 position and working capital are primarily due to cash-based operating expenditures and intangible exploration expenditures on Block 2B.

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

STOCK-BASED COMPENSATION

The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations. Stock-based compensation for the three months ended March 31, 2017 was $0.07 million compared to $0.1 million for the three months ended March 31, 2016. The decrease in stock-based compensation expense is due to 0.9 million stock options granted to directors, officers and employees of the Company during the three months ended March 31, 2016, of which one-third vests immediately, compared to nil options granted during the three months ended March 31, 2017.

RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH AOC:

At March 31, 2017, Africa Oil Corp. ("AOC") owned 28.5% of the common shares of Africa Energy.

Under the terms of the General Management and Service Agreement between AOC and the Company for the provision of management and administrative services, AOC invoiced the Company $0.03 million during the three months ended March 31, 2017 (March 31, 2016 – $0.04 million). At March 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 cost of administrative expense and salary costs paid by AOC.

During the three months ended March 31, 2017, AOC invoiced the Company $0.01 million for reimbursable expenses paid by AOC on behalf of the Company (March 31, 2016 - $0.01 million). At March 31, 2017, the outstanding balance payable to AOC was $0.07 million (at December 31, 2016 – $0.06 million).

COMMITMENTS AND CONTINGENCIES

BLOCK 2B, REPUBLIC OF SOUTH AFRICA

Under the terms of the Block 2B Exploration Right, the First Renewal Period was set to expire in March 2017. Prior to the expiry of the First Renewal Period, 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. As part of the application process, the Company has proposed a work program and budget which will need to be agreed with the Government of the Republic of South Africa. The application submitted is for entry into the Second Renewal Period and is for a period of two years.

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

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

PROPERTY LEASE CONTRACTS

The Company has committed to future minimum payments at March 31, 2017 under South African operating leases that includes the rental of housing and office space, including a proportionate share of operating costs as follows:

2017	101
2018	87
2019	19
Total minimum payments	207

OUTSTANDING SHARE DATA

The following table outlines the maximum potential impact of share dilution upon full execution of outstanding convertible instruments as at the effective date of the MD&A:

Common shares outstanding	319,177,135
Outstanding share purchase options	15,479,500
Full dilution impact on common shares outstanding	334,656,635

OFF-BALANCE SHEET ARRANGEMENTS

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

RISK FACTORS

The Company is subject to various risks and uncertainties, including, but not limited to, those listed below. Refer to the Company's Annual Information Form dated February 27, 2017 on Sedar (www.sedar.com) for further risk factor disclosures.

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 period ended March 31, 2017.

INTEREST RATE RISK

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

LIQUIDITY RISK

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

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

CREDIT RISK

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The majority of our credit exposure relates to amounts due from our joint venture partners. The risk of our joint venture partners defaulting on their obligations per their respective joint operating and farmout agreements is mitigated as there are contractual provisions allowing the Company to default joint venture partners who are non-performing and reacquire any previous farmed out working interests. The maximum exposure for the Company is equal to the sum of its cash and accounts receivable. As at March 31, 2017, the Company held $0.3 million of cash in financial institution outside of Canada where there could be increased exposure to credit risk.

FORWARD LOOKING STATEMENTS

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

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

Any statements regarding the following are forward-looking statements:

- expected closing dates for the completion of proposed transactions;
- planned exploration activity including both expected drilling and geological and geophysical related activities;
- anticipated future financing requirements
- future crude oil, natural gas or chemical prices;
- future sources of funding for our capital program;
- availability of potential farmout partners;
- government or other regulatory consent for exploration, development, farmout or acquisition activities;
- future production levels;
- future capital expenditures and their allocation to exploration and development activities;
- future earnings;
- future asset acquisitions or dispositions;

- future debt levels;
- availability of committed credit facilities;
- possible commerciality;
- development plans or capacity expansions;
- future ability to execute dispositions of assets or businesses;
- future sources of liquidity, cash flows and their uses;
- future drilling of new wells;
- ultimate recoverability of current and long-term assets;
- ultimate recoverability of reserves or resources;
- expected finding and development costs;
- expected operating costs;
- estimates on a per share basis;
- future foreign currency exchange rates;
- future market interest rates;
- future expenditures and future allowances relating to environmental matters;
- dates by which certain areas will be developed or will come on stream or reach expected operating capacity; and
- changes in any of the foregoing.

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

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

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

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

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

AFRICA ENERGY CORP.

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

		March 31, 2017	December 31, 2016
ASSETS	**Note**		
Current assets			
Cash and cash equivalents		$ 9,302	$ 10,179
Accounts receivable		140	164
Prepaid expenses		174	268
		9,616	10,611
Long-term assets			
Property and equipment	5	88	104
Intangible exploration assets	6	6,601	6,521
		6,689	6,625
Total assets		$ 16,305	$ 17,236
LIABILITIES AND EQUITY ATTRIBUTABLE TO COMMON SHAREHOLDERS			
Current liabilities			
Accounts payable and accrued liabilities		$ 470	$ 509
Due to related party	10	71	57
		541	566
Total liabilities		541	566
Equity attributable to common shareholders			
Share capital	7	108,246	108,246
Contributed surplus	8	4,375	4,301
Deficit		(96,857)	(95,877)
Total equity attributable to common shareholders		15,764	16,670
Total liabilities and equity attributable to common shareholders		$ 16,305	$ 17,236
Commitments and contingencies	13		

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

Approved on behalf of the Board:

"IAN GIBBS" *"ASHLEY HEPPENSTALL"*

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

AFRICA ENERGY CORP.

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

For the three months ended	**Note**		**March 31, 2017**		**March 31, 2016**
Operating expenses					
Salaries and benefits		$	574	$	609
Stock-based compensation	8		74		98
Travel			59		74
Management fees	10		32		40
Consulting fees			62		57
Office and general			133		185
Depreciation	5		17		18
Professional fees			75		98
Stock exchange and filing fees			11		10
			1,037		1,189
Finance income	9		(57)		(125)
Net loss and comprehensive loss attributable to common shareholders			(980)		(1,064)
Net loss per share	11				
Basic		$	(0.00)	$	(0.00)
Diluted		$	(0.00)	$	(0.00)
Weighted average number of shares outstanding for the purpose of calculating earnings per share	11				
Basic			319,177,135		244,377,135
Diluted			319,177,135		244,377,135

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

AFRICA ENERGY CORP.

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

	Note	March 31, 2017	March 31, 2016
Share capital:	7(b)		
Balance, beginning of the period		$ 108,246	$ 94,685
Balance, end of the period		108,246	94,685
Contributed surplus:			
Balance, beginning of the period		$ 4,301	$ 3,823
Stock-based compensation	8	74	98
Balance, end of the period		4,375	3,921
Deficit:			
Balance, beginning of the period		$ (95,877)	$ (91,679)
Net loss for the period		(980)	(1,064)
Balance, end of the period		(96,857)	(92,743)
Equity attributable to common shareholders		$ 15,764	$ 5,863

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

AFRICA ENERGY CORP.

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

For the three months ended		March 31, 2017	March 31, 2016
Cash flows provided by (used in):	**Note**		
Operations:			
Net loss for the period		$ (980)	$ (1,064)
Item not affecting cash:			
Stock-based compensation	8	74	98
Depreciation	5	17	18
Unrealized foreign exchange gain		(41)	(123)
Changes in non-cash operating working capital	14	40	(124)
		(890)	(1,195)
Investing:			
Property and equipment expenditures	5	(1)	(42)
Intangible exploration expenditures	6	(80)	-
Changes in non-cash investing working capital	14	39	(40)
		(42)	(82)
Financing:			
Advances from related party	10	46	51
Payments to related party	10	(32)	(138)
		14	(87)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		41	123
Decrease in cash and cash equivalents		(877)	(1,241)
Cash and cash equivalents, beginning of the period		$ 10,179	$ 7,004
Cash and cash equivalents, end of the period		$ 9,302	$ 5,763
Supplementary information:			
Interest paid		Nil	Nil
Taxes paid		Nil	Nil

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

1) Incorporation and nature of business:

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

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

2) Basis of preparation:

a) Statement of compliance:

The Company prepares these condensed consolidated interim financial statements in accordance with Canadian generally accepted accounting principles, specifically International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”). They are condensed as they do not include all the information required for full annual financial statements, and they should be read in conjunction with the consolidated financial statements for the year ended December 31, 2016.

The policies applied in these condensed consolidated financial statements are based on International Financial Reporting Standards (“IFRS”) issued and outstanding as at May 11, 2017, the date the Board of Directors approved the statements.

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the Company's consolidated financial statements for the year ended December 31, 2016. Those accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

c) Functional and presentation currency:

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

d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Significant estimates and judgment used in the preparation of these consolidated financial statements are described in the Company's consolidated financial statements for the year ended December 31, 2016.

3) Asset acquisitions:

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

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

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

ii) Thombo Petroleum Ltd. ("Thombo")

The Company paid $2.0 million less obligations outstanding at the effective date and issued 14.8 million new common shares of the Company, at a price of CAD $0.24 per share, to acquire all of the shares of Thombo, a privately held company operating and holding a 34.5% participating interest in Block 2B. The Company may be required to issue up to an additional 20 million common shares of Africa Energy and, at the option of the Company, to either pay and/or issue up to $1.5 million in additional contingent cash and/or shares of Africa Energy, if certain milestones associated with the commercialization of Block 2B are achieved (see Note 13). Due to management's assessment of the likelihood and timing of payments due based on the milestones, there has been no value assigned to the contingent consideration.

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

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

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

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

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

Net Assets Acquired

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

Consideration

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

4) Farmouts:

i) Crown Energy AB ("Crown")

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

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

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

During March 2017, the Company terminated the farmout agreement entered into on November 29, 2016 with a subsidiary of Pancontinental. Pursuant to the farmout agreement, the Company was to acquire a 10% participating interest in Petroleum Exploration Licence 37 offshore, Republic of Namibia. Africa Energy exercised its right to terminate the farmout agreement as a result of due diligence procedures performed by the Company which identified discrepancies in respect of certain agreed commercial terms of the farmout transaction.

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

5) Property and equipment:

		March 31, 2017		December 31, 2016
Cost, beginning of the period	$	192	$	129
Additions		1		63
Cost, end of the period		193		192
Accumulated depreciation, beginning of the period		(88)		(23)
Depreciation		(17)		(65)
Accumulated depreciation, end of the period		(105)		(88)
Net carrying amount, beginning of the period	$	104	$	106
Net carrying amount, end of the period	$	88	$	104

During the three months ended March 31, 2017 and 2016, the Company purchased property and equipment for its technical office, which is located in Cape Town, South Africa.

6) Intangible exploration assets:

		March 31, 2017		December 31, 2016
Net carrying amount, beginning of the period	$	6,521	$	-
Intangible exploration expenditures		80		424
Farmout (Note 4)		-		331
Acquisitions (Note 3)		-		5,766
Net carrying amount, end of the period	$	6,601	$	6,521

As at March 31, 2017, $6.6 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, and also geological and geophysical studies and general and administrative costs directly related to Block 2B.

During the three months ended March 31, 2017, the Company capitalized $0.06 million of general and administrative expenses related to intangible exploration assets (December 31, 2016 – $0.4 million).

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

7) Share capital:

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

b) Issued:

	March 31, 2017		December 31, 2016	
	Shares	Amount	Shares	Amount
Balance, beginning of the period	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 period	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 3). The common shares issued in accordance with the share purchase agreement were subject to a statutory hold period which expired February 22, 2017.

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

8) Share purchase options:

At the 2016 Annual General and Special Meeting, held on July 7, 2016, the Company's shareholders ratified and approved the Company's stock option plan (the "Plan"). The Plan provides that an aggregate number of common shares which may be reserved for issuance as incentive stock options shall not exceed 10% of the common shares outstanding, and that option exercise prices will reflect current trading values of the Company's shares. The term of any option granted under the Plan will be fixed by the Board of Directors and may not exceed five years from the date of grant. Vesting periods are determined by the Board of Directors and no optionee shall be entitled to a grant of more than 5% of the Company's outstanding issued shares.

Share purchase options outstanding, are as follows:

	March 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 period	15,479,500	0.16	8,399,500	0.19
Granted	-	-	7,310,000	0.12
Expired or cancelled	-	-	(230,000)	0.18
Balance, end of the period	15,479,500	0.16	15,479,500	0.16

i) No stock options were exercised during the three months ended March 31, 2017 or the year ended December 31, 2016.

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

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 three months ended March 31, 2017 and the year ended December 31, 2016 were estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

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

All options granted vest over a two-year period, of which one-third vest immediately, and expire three or five years after the grant date. The Company recognized $0.07 million in stock-based compensation expense for the three months ended March 31, 2017 (March 31, 2016 - $0.1 million).

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

Weighted Average Exercise price (CAD$/share)	Number outstanding	Weighted average remaining contractual life in years
0.30	1,884,500	0.12
0.17	4,885,000	2.95
0.13	1,420,000	3.37
0.11	1,850,000	4.02
0.125	5,440,000	4.13
0.16	15,479,500	3.20

9) Finance income and expense:

Finance income and expense for the three months ended March 31, 2017 and 2016 is comprised of the following:

For the three months ended	March 31, 2017	March 31, 2016
Interest and other income	$ (16)	$ (2)
Foreign exchange gain	(41)	(123)
Finance income	$ (57)	$ (125)

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.

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

10) Related party transactions:

Transactions with AOC:

At March 31, 2017, Africa Oil Corp. ("AOC") owned 28.5% of the common shares of Africa Energy.

Under the terms of the General Management and Service Agreement between AOC and the Company for the provision of management and administrative services, AOC invoiced the Company $0.03 million during the three months ended March 31, 2017 (March 31, 2016 – $0.04 million). At March 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 cost of administrative expense and salary costs paid by AOC.

During the three months ended March 31, 2017, AOC invoiced the Company $0.01 million for reimbursable expenses paid by AOC on behalf of the Company (March 31, 2016 - $0.01 million). At March 31, 2017, the outstanding balance payable to AOC was $0.07 million (at December 31, 2016 – $0.06 million).

11) Net Loss Per Share:

For the three months ended	March 31, 2017			March 31, 2016		
		Weighted Average			Weighted Average	
	Earnings	Number of shares	Per share amounts	Earnings	Number of shares	Per share amounts
Basic earnings per share						
Net loss attributable to common shareholders	$ (980)	319,177,135	$ (0.00)	$ (1,064)	244,377,135	$ (0.00)
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	$ (980)	319,177,135	$ (0.00)	$ (1,064)	244,377,135	$ (0.00)

During the three months ended March 31, 2017, the Company used an average market price of CAD$0.26 per share (three months ended March 31, 2016 - CAD$0.13 per share) to calculate the dilutive effect of stock options. For the three months ended March 31, 2017, 15,479,500 options were anti-dilutive and were not included in the calculation of dilutive loss per share (three months ended March 31, 2016 – 9,299,500).

12) Financial Instruments:

Assets and liabilities at March 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 and payables are classified as Level 2. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. The fair value approximates the carrying value due to short maturity. There were no transfers between levels in the fair value hierarchy in the period.

13) Commitments and Contingencies:

a) PSA and Agreement Commitments

Block 2B, Republic of South Africa:

Under the terms of the Block 2B Exploration Right, the Company and its partner have fulfilled the obligations of the First Renewal Period which 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 has submitted an application for entry into the Second Renewal Period. As part of the application process, the Company has proposed a work program and budget which will need to be agreed with the Government of the Republic of South Africa. The application submitted is for entry into the Second Renewal Period and is for a period of two years.

Under the Thombo Share Purchase Agreement, the Company will be obligated to;

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

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

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

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

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

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

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

b) Office and housing leases

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

2017	101
2018	87
2019	19
Total minimum payments	207

14) Supplementary Information:

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

For the three months ended	March 31, 2017		March 31, 2016	
Changes in non-cash working capital				
Accounts receivable	$	24	$	(7)
Prepaid expenses		94		(23)
Accounts payable and accrued liabilities		(39)		(134)
	$	79	$	(164)
Relating to:				
Operating activities	$	40	$	(124)
Investing activities		39		(40)
Changes in non-cash working capital	$	79	$	(164)