ORCA

ORCA EXPLORATION GROUP INC.

Q3

2016 Q3 INTERIM REPORT
FOR THE THREE AND NINE MONTHS
ENDED 30 SEPTEMBER 2016

Orca Exploration Group Inc. is an international public company engaged in hydrocarbon exploration, development and supply of gas in Tanzania and oil appraisal and gas exploration in Italy. Orca Exploration trades on the TSXV under the trading symbols ORC.B and ORC.A.

GLOSSARY

mcf	Thousands of standard cubic feet
MMcf	Millions of standard cubic feet
Bcf	Billions of standard cubic feet
Tcf	Trillions of standard cubic feet
MMcfd	Millions of standard cubic feet per day
MMbtu	Millions of British thermal units
HHV	High heat value
LHV	Low heat value
1P	Proven reserves
2P	Proven and probable reserves
3P	Proven, probable and possible reserves
Kwh	Kilowatt hour
MW	Megawatt
US$	US dollars
CDN$	Canadian dollars
bar	Fifteen pounds pressure per square inch

ORCA EXPLORATION GROUP INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

Financial and Operating Highlights

(Expressed in US$'000 unless indicated otherwise)	THREE MONTHS ENDED OR AS AT 30 SEPTEMBER 2016	2015	NINE MONTHS ENDED OR AS AT 30 SEPTEMBER 2016	2015
OPERATING				
Daily average gas delivered and sold *(MMcfd)*				
Additional Gas	**46.6**	46.4	**44.4**	46.7
Industrial	**13.5**	11.9	**12.3**	11.1
Power	**33.1**	34.5	**32.1**	35.6
Average price *(US$/mcf)*				
Industrial	**7.60**	7.67	**7.77**	7.57
Power	**3.57**	3.62	**3.56**	3.53
Weighted average	**4.73**	4.66	**4.72**	4.48
Operating netback *(US$/mcf)*	**3.31**	2.67	**3.23**	2.40
FINANCIAL				
Revenue	**17,744**	15,943	**48,126**	38,216
Funds flow from operating activities	**11,572**	9,462	**29,745**	18,063
per share - basic and diluted *(US$)*	**0.33**	0.27	**0.85**	0.52
Net cash flows from (used in) operating activities	**6,540**	(2,963)	**11,623**	1,568
per share - basic and diluted *(US$)*	**0.19**	(0.08)	**0.85**	0.04
Net income	**5,302**	6,112	**1,116**	8,001
per share - basic and diluted *(US$)*	**0.15**	0.18	**0.03**	0.23
Working capital (including cash)	**67,635**	39,660	**67,735**	39,660
Cash	**74,079**	49,540	**74,079**	49,540
Capital expenditures	**(45)**	8,275	**16,793**	13,871
Long-term loan	**58,398**	–	**58,398**	–
Outstanding shares *('000)*				
Class A	**1,751**	1,751	**1,751**	1,751
Class B	**33,106**	33,106	**33,106**	33,106
Total shares outstanding	**34,857**	34,857	**34,857**	34,857
Weighted average diluted Class A and Class B shares	**34,857**	34,889	**34,857**	34,889

The above table includes non-GAAP measures which may not be comparable to other companies including funds flow from operations and operating netback. Further, the above financial and operational highlights contain forward-looking information, which is subject to certain assumptions and risks. Please refer to the Management Discussion and Analysis ("MD&A") for information on non-GAAP measures and for our advisory on forward looking statements.

Q3 2016 Operating Highlights

- Revenue for quarter increased 11% to US$17.7 million from US$15.9 million in Q3 2015 and increased 26% to US$48.1 million over the nine months ended 30 September 2016 compared to US$38.2 million for the comparable prior year period. The increase is primarily due to the level of capital expenditure associated with the Offshore Program and the positive impact this had on the Company's share of net revenue. The Offshore Program which included workovers on wells SS-5, SS-7 and SS-9 and the drilling of one new well, SS-12, commenced in the third quarter of 2015 and was completed at the end of the first quarter of 2016 with the demobilization of the rig and services occurring during Q2 2016. The expenditures substantially increased the cost pool entitling the Company to 75% of net revenue for both the current quarter (Q3 2015: 58%) and the nine months ended 30 September 2016 (nine months ended 30 September 2015: 51%) with the corresponding reduction in Profit Gas attributable to TPDC by 42% and 49% respectively. The Additional Gas Sales for the quarter increased to 46.6 MMcfd from 46.4 MMcfd in Q3 2015 and decreased by 5% to 44.4 MMcfd from 46.7 MMcfd over the nine months ended 30 September 2016. The fall in sales volumes for the nine months ended 30 September 2016 has been substantially offset by a 5% increase in the weighted average gas price to US$4.72/Mcf from US$4.48/Mcf for the comparable prior year period.
- Funds flow from operating activities in Q3 2016 was US$11.6 million, or US$0.33 per share diluted, a 22% increase compared to US$9.5 million or US$0.27 per share diluted in Q3 2015, primarily the result of a higher revenue driven by a higher Cost Gas entitlement during the period. Funds flow for the nine months ended 30 September 2016 was up 65% to US$29.7 million, or US$0.85 per share, compared to US$18.1 million or US$0.52 per share for the comparable prior year period. The increases were primarily the result of higher revenues during the respective periods.
- Net income for Q3 2016 was US$5.3 million, or US$0.15 per share basic and diluted, as compared to income of US$6.1 million, or US$0.18 per share basic and diluted, in Q3 2015. Net income for the nine months ended 30 September 2016 was US$1.1 million, or US$0.03 per share, as compared to net income of US$8.0 million, or US$0.23 per share, for the comparable prior year period. The relative decrease in net income for the periods is a consequence of the increased provision against the TANESCO receivable of US$12.4 million (US$1.0 million in Q3 2016, US$3.4 million in Q2 2016, and US$8.0 million in Q1 2016) and the increase in the level of stock based compensation having been offset by the increase in revenue associated with the decrease in TPDC Profit Gas.
- Total capital expenditures for the quarter were US$ nil compared to US$8.3 million in Q3 2015. The capital expenditure in Q3 2015 related to workovers of SS-5, SS-7 and SS-9 for the Offshore Program. The total capital expenditures for the nine months ended 30 September 2016 were US$16.8 million compared to US$13.9 million for the comparable prior year period. The capital expenditures for the nine months ended 30 September 2016 included the drilling of well SS-12 which was started in 2015 and completed in February 2016.

- Working capital as at 30 September 2016 increased 70% to US$67.6 million compared to US$39.7 million as at 30 September 2015. The increase is primarily a result of the increase in long-term debt of US$58.4million offset by capital expenditures primarily related to the recently completed Offshore Program. The increase in the cash to US$74.1 million as at 30 September 2016 from US$49.5 million as at 30 September 2015 accounting for 88% of the total increase in working capital over the twelve month period.
- At 30 September 2016, TANESCO owed the Company US$81.2 million excluding interest (of which arrears were US$74.4 million) compared to US$69.7 million (including arrears of US$61.9 million) as at 31 December 2015. During the quarter, the Company received a total of US$8.6 million (Q3 2015: US$4.0 million) from TANESCO against sales invoices totaling US$10.2 million (Q3 2015: US$10.4 million). Current TANESCO receivables as at 30 September 2016 amounted to US$6.9 million (Q4 2015: US$7.8 million). Since the quarter end, TANESCO has paid the Company US$3.7 million, and as at the date of this report the total TANESCO receivable is US$80.8 million (of which US$74.2 million has been provided for). The amounts owed do not include interest billed to TANESCO.
- The Company is aware that the Government of Tanzania ("GoT") and the MEM continue to be engaged in ongoing discussions with the World Bank with the primary purpose to address the GoT debts and specifically the TANESCO arrears to the Company and other gas suppliers. Although the Company believes progress is being made with TANESCO to resolve the arrears and to keep payments current, there is no certainty as to the timing for the settlement of the arrears. The Company has filed a notice of dispute with TANESCO to enforce its contractual rights to collect all amounts owed.

Management's Discussion & Analysis

THIS MD&A OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016 SHOULD BE READ IN CONJUNCTION WITH THE CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016 AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TOGETHER WITH THE MD&A FOR THE YEAR ENDED 31 DECEMBER 2015. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON 15 NOVEMBER 2016.

FORWARD LOOKING STATEMENTS

This management's discussion and analysis ("MD&A") contains forward-looking statements or information (collectively, "forward-looking statements") within the meaning of applicable securities legislation. More particularly, this MD&A contains, without limitation, forward-looking statements pertaining to the following: the Company's expectations regarding supply and demand of natural gas; anticipated power sector revenues; potential impact of Tanzanian Production Development Corporation ("TPDC") future back-in rights on the economic terms of the Production Sharing Agreement ("PSA"); ability to meet all conditions under the International Finance Corporation ("IFC") financing agreement signed on 29 October 2015; the Company's estimated spending for the planned Development Program for 2016 and 2017, which includes construction of the production platform for well SS-12, tie-in of well SS-12 to the production facilities and implementation of a refrigeration unit to enable production into the National Natural Gas Infrastructure Project ("NNGIP") which includes two gas processing facilities and pipelines supplying gas from the Mtwara Region of Tanzania and Songo Songo Island to Dar es Salaam; the potential impact of the Petroleum Act, 2015 ("Act") and the Finance Act, 2016 on the Company's business in Tanzania; the Company's belief that the parties to the unsigned Amended and Restated Gas Agreement ("ARGA") will continue to conduct themselves in accordance with the ARGA until the new Gas Sales Agreement ("NGSA") is signed; the Company's expectation that, despite the Re-Rating Agreement of the gas processing plant owned by Songas Limited ("Songas") having expired, the Songas gas processing plant will not be de-rated and the risk that Songas and the Company will not agree on appropriate terms and sign the NGSA in a timely manner; the Company's expectation that it can expand and maintain the deliverability of gas volumes in excess of the existing Songas infrastructure; the Company's expectation that the SS-4 well may need to be suspended in the future; the forward-looking statements under "Contractual Obligations and Committed Capital Investment"; the Company's expectation that it will not have a shortfall during the term of the Protected Gas delivery obligation to July 2024; and the Company's expectations in respect of its appeal on the decision of the Tax Revenue Appeals Tribunal and other statements under "Contingencies – Taxation". In addition, statements relating to "reserves" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be profitably produced in the future. The recovery and reserve estimates of the Company's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Although management believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, operational, competitive, political and social uncertainties and contingencies.

These forward-looking statements involve substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control, and many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by the Company, including, but not limited to: failure to receive payments from the Tanzanian Electrical Supply Company ("TANESCO"); risk that financing solutions are not implemented by the Tanzanian government and the World Bank; risk that any financing provided by the World bank will not be allocated to resolving TANESCO arrears; risk that TPDC, the Ministry of Energy and Minerals ("MEM") and the Company are unable to agree on commercial terms for future incremental gas sales and consequently the Company cannot expand the Songo Songo development beyond the existing Songas infrastructure and supply gas to the NNGIP; risk that additional gas volumes available to the NNGIP from third parties will replace all or a portion of the volumes currently nominated by TANESCO under the Portfolio Gas Sales Agreement ("PGSA") until additional gas-fired power generation is brought on-stream to consume all of the Company's available gas production; risk that the Development Program is not completed as planned and the actual cost to complete the Development Program exceeds the Company's estimates; risk that the remaining well workovers under the Development Program are unsuccessful or determined to be infeasible; risk that the contingencies related to the development work for the full field development plan for Songo Songo are not satisfied; potential negative effect on the Company's rights under the PSA and other agreements relating to its business in Tanzania as a result of the recently approved Act, as well as the risk that such legislation will create additional costs and time connected with the Company's business in Tanzania; risk that, without extending or replacing the Re-Rating Agreement, the gas processing plant may be de-rated back to its original capacity, resulting in a material reduction in the Company's sales volumes of Additional Gas; risk that the Company will not fully recover Songas' share of capital expenditures associated with the workovers of wells SS-5 and SS-9; risk that the Company will be required to pay additional taxes and penalties; the impact of general economic conditions in the areas in which the Company operates; civil unrest; industry conditions; changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices, foreign exchange or interest rates; stock market volatility; competition for, among other things, capital, drilling equipment and skilled personnel; failure to obtain required equipment for drilling; delays in drilling plans; failure to obtain expected results from drilling of wells; effect of changes to the PSA on the Company; changes in laws; imprecision in reserve estimates; the production and growth potential of the Company's assets; obtaining required approvals of regulatory authorities; risks associated with negotiating with foreign governments; inability to satisfy debt obligations and conditions; failure to successfully negotiate agreements; and risk that the Company will not be able to fulfil its contractual obligations. In addition, there are risks and uncertainties associated with oil and gas operations, therefore the Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by these forward-looking statements will transpire or occur, or if any of them do so, what benefits the Company will derive therefrom. Readers are cautioned that the foregoing list of factors is not exhaustive.

Such forward-looking statements are based on certain assumptions made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate in the circumstances, including, but not limited to, the TPDC, the MEM and the Company are able to agree on commercial terms for future incremental gas sales and the Company can expand Songo Songo development beyond the existing Songas infrastructure and supply gas to the NNGIP; the Development Program will be completed within the timing anticipated; the actual costs to complete the Development Program are in line with estimates; that there will continue to be no restrictions on the movement of cash from Mauritius or Tanzania; that the Company will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Company will have adequate funding to continue operations; that the Company will successfully negotiate agreements; receipt of required regulatory approvals; the ability of the Company to increase production at a consistent rate; infrastructure capacity; commodity prices will not further deteriorate significantly; the ability of the Company to obtain equipment and services in a timely manner to carry out exploration, development and exploitation activities; future capital expenditures; availability of skilled labour; timing and amount of capital expenditures; uninterrupted access to infrastructure; the impact of increasing competition; conditions in general economic and financial markets; effects of regulation by governmental agencies; that the Company's appeal of various tax assessments will be successful; that the enactment of the Act in Tanzania will not impair the Company's rights under the PSA to develop and market natural gas in Tanzania; current or, where applicable, proposed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; and other matters.

The forward-looking statements contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

NON-GAAP MEASURES

THE COMPANY EVALUATES ITS PERFORMANCE USING A NUMBER OF NON-GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES) MEASURES. THESE NON-GAAP MEASURES ARE NOT STANDARDISED AND THEREFORE MAY NOT BE COMPARABLE TO SIMILAR MEASUREMENTS OF OTHER ENTITIES.

- FUNDS FLOW FROM OPERATING ACTIVITIES IS A TERM THAT REPRESENTS CASH FLOW FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES. IT IS A KEY MEASURE AS IT DEMONSTRATES THE COMPANY'S ABILITY TO GENERATE CASH NECESSARY TO ACHIEVE GROWTH THROUGH CAPITAL INVESTMENTS.
- OPERATING NETBACKS REPRESENT THE PROFIT MARGIN ASSOCIATED WITH THE PRODUCTION AND SALE OF ADDITIONAL GAS AND IS CALCULATED AS REVENUES LESS PROCESSING AND TRANSPORTATION TARIFFS, GOVERNMENT PARASTATAL'S REVENUE SHARE, OPERATING AND DISTRIBUTION COSTS FOR ONE THOUSAND STANDARD CUBIC FEET OF ADDITIONAL GAS. THIS IS A KEY MEASURE AS IT DEMONSTRATES THE PROFIT GENERATED FROM EACH UNIT OF PRODUCTION, AND IS WIDELY USED BY THE INVESTMENT COMMUNITY.
- FUNDS FLOW FROM OPERATING ACTIVITIES PER SHARE IS CALCUALATED ON THE BASIS OF THE FUNDS FLOW FROM OPERATING ACTIVITIES DIVIDED BY THE WEIGHTED AVERAGE NUMBER OF SHARES.
- CASH FLOW FROM OPERATING ACTIVITIES PER SHARE IS CALCULATED AS CASH FLOW FROM OPERATIONS DIVIDED BY THE WEIGHTED AVERAGE NUMBER OF SHARES.

ADDITIONAL INFORMATION REGARDING ORCA EXPLORATION IS AVAILABLE UNDER THE COMPANY'S PROFILE ON SEDAR AT www.sedar.com.

NATURE OF OPERATIONS

The Company's principal operating asset is its interest in the PSA with TPDC and the Government of Tanzania in the United Republic of Tanzania. This PSA covers the production and marketing of certain gas from the Songo Songo Block offshore Tanzania.

The PSA defines the gas produced from the Songo Songo field as "Protected Gas" and "Additional Gas". The Protected Gas is owned by TPDC and is sold under a 20-year agreement (until 31 July 2024) to Songas ("Gas Agreement"). Songas is the owner of the infrastructure that enables the gas to be treated and delivered to Dar es Salaam, which includes a gas processing plant on Songo Songo Island.

Songas utilizes the Protected Gas as feedstock for its gas turbine electricity generators at Ubungo and for onward sale to customers. The Company receives no revenue for the Protected Gas delivered to Songas and operates the original wells and gas processing plant on a 'no gain no loss' basis.

Under the PSA, the Company has the right to produce and market all gas in the Songo Songo Block in excess of the Protected Gas requirements ("Additional Gas") until the PSA expires in October 2026.

TANESCO is a parastatal organization which is wholly-owned by the Government of Tanzania, with oversight by the MEM. TANESCO is responsible for the generation, transmission and distribution of electricity throughout Tanzania. Natural gas has become an integral component of TANESCO's power generation fuel mix as a more reliable source of supply over seasonal hydro power and a more cost effective alternative to liquid fuels. The Company currently supplies gas directly to TANESCO by way of a Portfolio Gas Supply Agreement ("PGSA") and indirectly through the supply of Protected Gas and Additional Gas to Songas which in turn generates and sells power to TANESCO. TANESCO is the Company's largest customer and the gas supplied by the Company to Songas and TANESCO today fires approximately 35% of the electrical power generated in Tanzania and 47% of the gas utilized for power generation in the country.

In addition to gas supplied to Songas and TANESCO for the generation of power, the Company has developed and supplies an industrial gas market in the Dar es Salaam area consisting of some 38 industrial customers.

Consolidation

The companies which are 100% owned that are being consolidated are:

COMPANY	INCORPORATED
Orca Exploration Group Inc.	British Virgin Islands
Orca Exploration Italy Inc.	British Virgin Islands
Orca Exploration Italy Onshore Inc.	British Virgin Islands
Orca Exploration Longastrino SRL	Italy
PAE PanAfrican Energy Corporation	Mauritius
PanAfrican Energy Tanzania Limited ("PAET")	Jersey
Orca Exploration UK Services Limited	United Kingdom

BUSINESS RISKS

See "Business Risks" in the MD&A for the year ended 31 December 2015 for a complete discussion of the business risks of the Company.

Financing

The ability of the Company to meet its financing obligations or to arrange financing in the future will if necessary depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company would be successful in its efforts to meet its current commitments or arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from treasury of the Company, control of the Company may change and shareholders may suffer additional dilution.

From time to time the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed partially or wholly with debt, which may temporarily increase the Company's debt levels above industry standards.

Collectability of receivables

The Company evaluates the collectability of its receivables on the basis of payment history, frequency and predictability, as well as Management's assessment of the customer's willingness and ability to pay. Both Songas and the Company have been impacted by TANESCO's inability to pay.

As at 30 September 2016, TANESCO owed the Company US$81.2 million excluding interest (of which arrears were US$74.4 million) compared to US$69.7 million (including arrears of US$61.9 million) as at 31 December 2015. During the quarter, the Company received a total of US$8.6 million (Q3 2015: US$4.0 million) from TANESCO against sales invoices totaling US$10.2 million (Q3 2015: US$10.4 million) for the nine months ended 30 September 2016 the Company received a total of US$18.8 million against sales totaling US$30.3 million (nine months ending 30 September 2015 received a total of US$34.1 million against sales totaling US$45.8 million). Current TANESCO receivables as at 30 September 2016 amounted to US$6.9 million (Q4 2015: US$7.8 million). Since the quarter end, TANESCO has paid the Company US$3.7 million, and as at the date of this report the total TANESCO receivable is US$80.8 million (of which US$74.4 million has been provided for). The amounts owed do not include interest billed to TANESCO.

Amounts collected with respect to the long-term receivable in the future will be reflected in earnings when payment is received. Notwithstanding this provision, the Company and TANESCO continue to operate in accordance with the terms of the PGSA whereby natural gas continues to be delivered by the Company and TANESCO is invoiced pursuant to the terms of the PGSA. This provision against the TANESCO net long-term receivable will not prejudice the Company's rights to payment in full or its ability to pursue collection in accordance with the terms of the agreement with TANESCO.

Pursuant to the terms of the ARGA, on 25 April 2016 the Company and TPDC issued a joint notice to TANESCO that the company would consider suspending deliveries under this agreement unless suitable arrangements were made by TANESCO to settle arrears and maintain payments for current deliveries (the "Suspension Notice"). Although the Suspension Notice has not been withdrawn, the Company agreed not to act on the Suspension Notice given the commitment by TANESCO to make regular weekly payments to cover current deliveries.

On September 1, 2016 the Company issued a notice of dispute to TANESCO to reinforce that unless the payments are increased to cover current deliveries and efforts taken to reduce arrears, further action will be taken to enforce the Company's contractual rights to collect all amounts owed.

The Company is also aware that the Government of Tanzania ("GoT") and the MEM have engaged in ongoing discussions with the World Bank with the primary purpose to address the GoT debts and specifically, the TANESCO arrears to the Company and other suppliers. The Company is also aware that a tariff increase application has been submitted by TANESCO to the regulatory authority, EWURA to ensure TANESCO can meet its obligations for current and future deliveries.

As at 30 September 2016, Songas owed the Company US$24.1 million (Q4 2015: US$19.0 million), while the Company owed Songas US$1.3 million (Q4 2015: US$2.6 million); there is no contractual right to offset these amounts. Amounts due to Songas primarily relate to pipeline tariff charges of US$1.0 million (Q4 2015: US$1.1 million), whereas the amounts due to the Company are mainly for capital expenditures of US$14.4 million (Q4 2015: US$11.2 million), sales of gas of US$3.4 million (Q4 2015: US$2.2 million) and for the operation of the gas plant of US$6.2 million (Q4 2015: US$5.6 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through "no profit, no loss" basis.

As at 30 September 2016 the net amount owed by Songas to the Company was US$22.7 million (Q4 2015: US$16.4 million). The Company considers the doubtful debt provision of US$9.8 million to be at an appropriate level recognizing the pending settlement of the remaining overdue operatorship charges and the Songas share of the well workover costs. Any significant amounts not agreed to will be pursued through the mechanisms provided in the agreements with Songas.

The "Tax Recoverable" figure carried on the balance sheet arises from the revenue sharing mechanism within the PSA which entitles the Company to recover from TPDC, by way of a deduction from TPDC's Profit Gas share, an amount "the adjustment factor" equal to the actual income taxes payable by the Company. Recovery, by offset against TPDC's share of revenue is dependent on payment of income taxes relating to prior period adjustment factors as they are assessed.

Access to Songas processing and transportation

While the Company operates the Songo Songo gas processing plant, Songas is the owner of plant and pipeline system which transports natural gas from Songo Songo to Dar es Salaam. The Company's ability to deliver gas to its customers in Dar es Salaam is dependent upon it having access to the Songas infrastructure. Although there are agreements with Songas to allow the Company to process and transport gas, there is no assurance that these rights could not be challenged or curtailed by Songas. The inability to access the Songas plant and processing facilities would materially impair the Company's ability to realize revenue from natural gas sales.

As a result of the Songo Songo gas plant re-rating that occurred in 2011 pursuant to the Re-Rating Agreement, the capacity of the Songas gas processing plant was increased to a maximum of 110 MMcfd (restricted to 102 MMcfd because of pipeline and pressure requirements). The Re-Rating Agreement expired in 2013 and no new agreement is currently in place. Without a new agreement, there is a risk that Songas could request production be limited to 70 MMcfd (the capacity originally agreed to), which would result in a material reduction in the Company's sales volumes of Additional Gas.

The Petroleum Act, 2015

In July 2015 the Tanzania Parliament passed The Petroleum Act, 2015, which was passed into law by Presidential decree on 4 August 2015. The Act repeals earlier legislation, provides a regulatory framework over mid-stream and downstream gas activity and as well consolidates and puts in place a single, effective and comprehensive legal framework for regulating the oil and gas industry in the country. The Act also provides for the creation of an upstream regulator, the Petroleum Upstream Regulatory Authority ("PURA"). The mid and downstream petroleum as well as gas activities are proposed to be regulated by the current authority, the Energy and Water Utilities Regulatory Authority ("EWURA").

The Act also confers upon on TPDC, the status of the National Oil Company, mandated with the task of managing the country's commercial interest in the petroleum operations as well as mid and downstream natural gas activities. The Act vests TPDC with exclusive rights in the entire petroleum upstream value chain and the natural gas mid and downstream value chain. However, the exclusive rights of the National Oil Company do not extend to mid and downstream petroleum supply operations.

The Act does provide grandfathering provisions upholding the rights of the Company under the PSA. However, it is still unclear how the provisions of the Act will be interpreted and implemented regarding upstream and downstream activities.

Amended and Restated Gas Agreement

Terms of the original Gas Agreement were modified by the ARGA which was initialed by all parties but not signed. The ARGA provides clarification of the Protected Gas volumes and removes all terms dealing with the security of the Protected Gas and contract terms dealing with the consequences of any insufficiency are dealt with in a new Insufficiency Agreement ("IA"). The IA specifies terms under which Songas may demand cash security in order to keep it whole in the event of a Protected Gas insufficiency. Should the IA be signed, it will govern the basis for determining security. Under the provisional terms of the IA, when it is calculated that funding is required, the Company is required to fund an escrow account at a rate of US$2.00/MMbtu on all Industrial Additional Gas sales out of its and TPDC's share of revenue, and TANESCO is required to contribute the same amount on Additional Gas sales to the Power sector. The funds provide security for Songas in the event of an insufficiency of Protected Gas. The Company is actively monitoring the reservoir and, supported by the report of its independent engineers, does not anticipate that a liability will occur in this respect. As at the date of this report, the ARGA has only been initialed. Although the ARGA is unsigned, the parties have and continue to conduct themselves, in certain respects, as though the ARGA is in effect. Management does not foresee at this time a material risk with the conduct of the Company's business with an unsigned ARGA.

Additional Gas

The Company has the right under the terms of the PSA to market volumes of Additional Gas subject to satisfying the requirements to deliver Protected Gas to Songas.

There is a risk that Songas could interfere in the Company's ability to produce, transport and sell volumes of Additional Gas if the Company's obligations to Songas under the Gas Agreement are not met. In particular, Songas has the right in specific circumstances to request reasonable security on all Additional Gas sales.

With the passing of the Act, TPDC was given significant rights over upstream and downstream operations in the country and is the sole aggregator of natural gas in the country. Some clauses in the Act conflict with the Company's rights under the PSA to directly market Additional Gas and there is a risk that this prior right will not continue to be recognized and that the Company's ability to maximize revenue on Additional Gas sales may be impaired by the requirement to sell gas to TPDC as aggregator.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Company's unaudited condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ materially from these estimates. In preparing the unaudited condensed consolidated interim financial statements, the significant judgements made by the management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2015. See "Critical Accounting Estimates and Judgements" in the MDA for the year ended 31 December 2015 for a complete discussion.

Collectability of receivables

Management reviews the accounts receivable aging and payment history on a weekly basis. Accounts which are in excess of 60-days in arrears are identified as potential doubtful accounts. When sustained arrears performance is exhibited over a quarter, together with an assessment by management of the customer's willingness and ability to pay, an account is deemed "doubtful" and a provision against that account is made for the reporting period based on an assessment of that amount of arrears which are unlikely to be paid in the immediate future.

TANESCO is, and has been, experiencing financial difficulties since 2011. These have been caused by a combination of dependence on high cost liquid fuel power generation following droughts in Tanzania, a government mandate to build additional power stations without appropriate financing and inadequate consumer tariffs to cover operational costs.

Prior to 2016 the Company had reached an understanding with TANESCO that it would only continue to supply gas if TANESCO remained reasonably current with payments for current gas deliveries. Excess payments received over and above the current balances would be applied to the arrears balance. During 2016 TANESCO payments have been irregular and insufficient to cover current gas deliveries. With the resumption of weekly payments in May 2016 together with the current TANESCO application for tariff increases to ensure it can meet its ongoing obligations, the Company has continued gas deliveries with the expectation that TANESCO will stay reasonably current with payments. However there still remains a high level of uncertainty as to the timing of a conclusive arrangement between the GoT and the World Bank and the amount of funds the Company will receive as a result of any arrangements made between the GoT and the World Bank.

Management has reviewed the current position with TANESCO and feels that the current policy to reclassify all amounts receivable from TANESCO in excess of 60 days, and in arrears, as a long-term receivable is still appropriate.

Results for the three and nine months ended 30 September 2016

SUMMARY

During the nine months ended 30 September 2016 the Company successfully completed the drilling of well SS-12. This completed all work-over and drilling activities planned under the Offshore Program. Based on preliminary evaluation, the Company anticipates that production capabilities will increase by approximately 35 MMcfd once the SS-12 production platform is completed and the well is tied into the NNGIP infrastructure. Total capital expenditures for the nine months ended 30 September 2016 were US$16.8 million (nine months ending 30 September 2015: US$13.9 million).

The Company's revenue increased by 11% to US$17.7 million in the third quarter of 2016 (Q3 2015: US$15.9 million) and increased 26% to US$48.1 million for the nine months ended 30 September 2016 (nine months ended 30 September 2015: US$38.2 million). The increase is primarily a result of the capital expenditures from the Offshore Program which commenced in Q3 2015 and was completed in Q1 2016 increasing the pool of recoverable costs which entitled the Company to a greater share of net revenue.

The Company recorded a net income for the quarter of US$5.3 million (Q3 2015: US$6.1 million) and a net income for the nine months ended 30 September 2016 of US$1.1 million (nine months ended 30 September 2015: US$8.0 million). The decrease quarter over quarter and year to date over year to date is primarily a result of the increase in the provision for doubtful accounts on the TANESCO long-term receivable to US$12.4 million as at 30 September 2016 from US$11.5 million at 30 June 2016 (Q3 2015 and nine months ending 30 September 2015: US$ nil), although TANESCO weekly payments were more consistent in the quarter compared to Q2 2016 and Q3 2015. The increase in revenue as a consequence of the Offshore Program is offset to a large extent by the increase in associated corporation tax and the cost of servicing the IFC financing facility.

The Company finished the quarter in a stable financial position with US$67.6 million of working capital (Q4 2015: US$32.5 million). This reflects the final drawdown of US$40 million on the IFC financing facility bringing total long-term debt at quarter end to US$58.4 million (Q4 2015: US$18.6 million), increased receipts from TANESCO (US$8.6 million in the current quarter compared to US$6.5 million in Q2 2016) and the overall increase in the net Songas receivable from US$16.4 million in Q4 2015 to US$22.7 million at 30 September 2016.

OPERATING VOLUMES

The total volume of Protected Gas and Additional Gas delivered and sold during Q3 2016 was 8,026 MMcf (Q3 2015: 7,769 MMcf), or average daily volumes of 87.2 MMcfd (Q3 2015: 84.4 MMcfd), net of approximately 0.3 MMcfd (Q3 2015: 0.3 MMcfd) consumed locally for fuel gas.

The Additional Gas sales volumes for the quarter were 4,285 MMcf (Q3 2015: 4,264 MMcf), or average daily volumes of 46.6 MMcfd (Q3 2015: 46.4 MMcfd).

The 5% decrease in Additional Gas volumes from 46.7 MMcfd for the nine months ended 30 September 2015 to 44.4 MMcfd for the nine months ended 30 September 2016 is primarily a result of reduced nominations of natural gas volumes by TANESCO arising from cessation of power generation contract with an independent power producer who was using the Company's Additional Gas; incremental natural gas supply to TANESCO from other gas suppliers; and suspension of power generation by Songas in the early part of Q1 2016 due to issues of non-payment with TANESCO. The decline in natural gas supplied to the power sector was offset by the increase in gas supplied to the industrial customers.

The Company's sales volumes were split between the Industrial and Power sectors as detailed in the table below:

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
	2016	2015	**2016**	2015
Gross sales volume *(MMcf)*				
Industrial sector	**1,238**	1,091	**3,361**	3,031
Power sector	**3,047**	3,173	**8,809**	9,708
Total volumes	**4,285**	4,264	**12,170**	12,739
Gross average daily sales volume *(MMcfd)*				
Industrial sector	**13.5**	11.9	**12.3**	11.1
Power sector	**33.1**	34.5	**32.1**	35.6
Total daily sales volume	**46.6**	46.4	**44.4**	46.7

Industrial sector

Industrial sales volume increased by 13% to 1,238 MMcf (13.5 MMcfd) in Q3 2016 from 1,091 MMcf (11.9 MMcfd) in Q3 2015 and increased by 11% to 3,361 MMcf (12.3 MMcfd) for the nine months ended 30 September 2016 from 3,031 MMcf (11.1 MMcfd) for the nine months ended 30 September 2015. The increased volumes are primarily the result of fewer days of unscheduled maintenance work by cement, textile and edible oil companies and consumption by new customers connected during the first half of 2016.

Power sector

Power sector sales volumes decreased by 4% to 3,047 MMcf (33.1 MMcfd) in Q3 2016 compared to 3,173 MMcf (34.5 MMcfd) in Q3 2015 and decreased by 9% to 8,809 MMcf (32.1 MMcfd) for the nine months ended 30 September 2016 from 9,708 MMcf (35.6 MMcfd) for the nine months ended 30 September 2015. The decrease in volumes on a year to date basis is primarily a result of reduced nominations of natural gas volumes by TANESCO arising from cessation of power generation contract with an independent power producer who was using the Company's Additional Gas; incremental natural gas supply to TANESCO from other gas suppliers; and suspension of power generation by Songas in the early part of Q1 2016 due to issues of non-payment with TANESCO.

SONGO SONGO DELIVERABILITY

As at 30 September 2016, the Company had a field productive capacity of approximately 155 MMcfd, with the expansion of production volumes limited to 102 MMcfd by the available Songas pipeline infrastructure. The increase in field productive capacity was due to successful workovers on wells SS-5, SS-7 and SS-9 completed during the second half of 2015. Well SS-3 is currently suspended; it is the Company's intention to undertake workovers on SS-3 and SS-4 wells in the future. During Q1 2016, the Company completed drilling well SS-12 adding a further potential of 35 MMcfd to the field productive capacity. The SS-12 well cannot be produced until the construction of a production platform and a flowline to tie the well into the NNGIP infrastructure.

COMMODITY PRICES

The commodity prices achieved in the different sectors during the quarter and the nine months ended 30 September are detailed in the table below:

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$/mcf	**2016**	2015	**2016**	2015
Average sales price				
Industrial sector	**7.60**	7.67	**7.77**	7.57
Power sector	**3.57**	3.62	**3.56**	3.53
Weighted average price	**4.73**	4.66	**4.72**	4.48

Industrial sector

The average gas price during the quarter was US$7.60/mcf, a decrease of 1% from US$7.67/mcf in Q3 2015. This is a consequence of: (i) the impact of lowering the floor prices for some industrial customers that came into effect in September 2016; (ii) a contractual step change in the gas prices to a cement company with effect from 1 January 2016 and (iii) a change in the sales mix.

The average price for the nine months ended 30 September 2016 was US$7.77/mcf up 3% from US$7.57/mcf for the nine months ended 30 September 2015.

Power sector

The average gas price during the quarter was US$3.57/mcf, a decrease of 1% from US$3.62/mcf in Q3 2015. The decrease is the result of a reduction in the volumes subjected to premium price in accordance with the terms of the gas sales contracts offsetting the contractual annual indexation price rise of 2% in July.

The average price for the nine months ended 30 September 2016 was US$3.56/mcf up 1% compared with US$3.53/ mcf for the nine months ended 30 September 2015.

OPERATING REVENUE

Under the terms of the PSA, the Company is responsible for invoicing, collecting and allocating the revenue from Additional Gas sales.

The Company is able to recover all costs incurred on the exploration, development and operations of the project up to a maximum of 75% of the Net Revenue ("Cost Gas") prior to the distribution of Profit Gas. Any costs not recovered in any period are carried forward for recovery out of future revenues. Once the Cost Gas has been recovered, TPDC is able to recover any pre-approved marketing costs.

The Additional Gas sales volumes for both the quarter and Q3 2015 were below 50 MMcfd and, as a consequence, the Company was only entitled to a 40% share of Profit Gas revenue for the year as opposed to a 55% share when production is above 50 MMcfd (net of Cost Gas recoveries from revenue). See "Principal Terms of the Tanzanian PSA and Related Agreements."

The Company was allocated a total of 85% of the Songo Songo field net revenue in the quarter (Q3 2015: 75%). The increase in the allocation of net revenue is a consequence of the Offshore Development Program which enabled the Company to be entitled to the maximum cost gas allocation due to the increase in the cost pool.

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2016**	2015	**2016**	2015
Gross sales revenue	**20,284**	21,315	**57,457**	58,597
Gross tariff for processing plant and pipeline infrastructure	**(2,545)**	(2,930)	**(7,624)**	(9,053)
Gross revenue after tariff ("field net revenue")	**17,739**	18,385	**49,833**	49,544
Analysed as to:				
Company Cost Gas	**13,304**	10,748	**37,375**	25,145
Company Profit Gas	**1,774**	3,055	**4,983**	9,760
Company operating revenue	**15,078**	13,803	**42,358**	34,905
TPDC share of revenue	**2,661**	4,582	**7,475**	14,639
	17,739	18,385	**49,833**	49,544

The Company's total revenues for the quarter and the nine months ended 30 September 2016, amounted to US$17.7 million and US$48.1 million, respectively, after adjusting the Company's operating revenues of US$15.1 million and US$42.4 million by:

i) Adding US$3.0 million and US$6.7 million for income tax for the quarter and for the nine months ended 30 September 2016. The Company is liable for income tax in Tanzania, but the income tax is recoverable out of TPDC's Profit Gas when the tax is payable. To account for this, revenue is grossed up to include the current income tax charge of 30%; and,

ii) Subtracting US$0.3 million and US$0.9 million for deferred Additional Profits Tax charged in the quarter and for the nine months ended 30 September 2016, respectively. This tax is considered a royalty and is presented as a reduction in revenue.

Revenue presented on the Condensed Consolidated Interim Statements of Comprehensive Income (unaudited) may be reconciled to the operating revenue as follows:

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2016**	2015	**2016**	2015
Industrial sector	**9,405**	9,845	**26,120**	24,370
Power sector	**10,879**	11,470	**31,337**	34,227
Gross sales revenue	**20,284**	21,315	**57,457**	58,597
Processing and transportation tariff	**(2,545)**	(2,930)	**(7,624)**	(9,053)
Field net revenue	**17,739**	18,385	**49,833**	49,544
TPDC share of revenue	**(2,661)**	(4,582)	**(7,475)**	(14,639)
Company operating revenue	**15,078**	13,803	**42,358**	34,905
Additional Profits Tax charge	**(329)**	(593)	**(925)**	(2,020)
Current income tax adjustment	**2,995**	2,733	**6,693**	5,331
Revenue	**17,744**	15,943	**48,126**	38,216

The Company's gross sales revenue decreased by 5% to US$20.3 million over the prior year quarter (Q3 2015: US$21.3 million) resulting from a combination of a 1% increase in the weighted average sales price and a 13% reduction in sales volumes.

The Company's operating revenue increased 9% to US$15.1 million compared with US$13.8 million in Q3 2015. The increase is primarily due to the capital expenditures related to the Offshore Program which commenced in Q3 2015 and completed in Q1 2016. This entitled the Company to 75% of net revenue as Cost Gas in the quarter and the corresponding reduction in Profit Gas and a corresponding decrease in Profit Gas attributable to TPDC by 42%.

A recovery in the APT charge of US$0.3 million, or 45%, for the quarter and US$0.9 million, or 54%, for the nine months is a result of the fall in the effective rate from 20.7% to 18.6%.

The APT charge is based on the Company's share of Profit Gas which decreased to US$1.8 million for Q3 2016 (Q3 2015: US$3.1 million) and to US$5.0 million for the nine months ending 30 September 2016 (nine months ending 30 September 2015: US$9.8 million). The drop in Profit Gas is a direct result of the capital expenditure increasing Cost Gas.

PROCESSING AND TRANSPORTATION TARIFF

Under the Re-Rating Agreement the Company effectively pays a tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the regulated tariff of US$0.59/mcf payable to Songas. The Re-Rating Agreement formally expired in 2013; without a new agreement there is a risk that Songas may choose not to operate the gas processing plant above 70 MMcfd. The tariff charge for the quarter was US$2.5 million (Q3 2015: US$2.9 million). The reduction in the tariff for the quarter and for the first nine months of the year is the result of lower volumes during the respective periods.

PRODUCTION AND DISTRIBUTION EXPENSES

Well maintenance costs are allocated between Protected Gas and Additional Gas in proportion to their respective sales during the period. The total cost of maintenance for the quarter was US$0.1 million (Q3 2015: US$0.1 million). Amounts allocated for Additional Gas for the quarter were US$0.1 million (Q3 2015: US$0.1 million).

Other field and operating costs include an apportionment of the annual PSA licence costs, regulatory fees, insurance, some costs associated with the evaluation of the reserves, and the cost of personnel which are not recoverable from Songas.

Distribution costs represent the direct cost of maintaining the ring main distribution pipeline and pressure reduction station (security, insurance and personnel). Ring main distribution costs were US$0.7 million for the quarter (Q3 2015: US$0.5 million). The production and distribution costs are detailed in the table below:

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2016**	2015	**2016**	2015
Share of well maintenance	**65**	43	**239**	186
Other field and operating costs	**112**	440	**714**	1,343
	177	483	**953**	1,529
Ringmain distribution costs	**724**	459	**2,051**	1,412
Production and distribution expenses	**901**	942	**3,004**	2,941

OPERATING NETBACKS

The netback per mcf before general and administrative costs, overhead, tax and APT is detailed in the table below:

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$/mcf	**2016**	2015	**2016**	2015
Gas price – Industrial	**7.60**	7.67	**7.77**	7.57
Gas price – Power	**3.57**	3.62	**3.56**	3.53
Weighted average price for gas	**4.73**	4.66	**4.72**	4.49
Tariff	**(0.59)**	(0.69)	**(0.63)**	(0.71)
TPDC share of revenue	**(0.62)**	(1.08)	**(0.61)**	(1.15)
Net selling price	**3.52**	2.89	**3.48**	2.63
Well maintenance and other operating costs	**(0.04)**	(0.11)	**(0.08)**	(0.12)
Ring main distribution costs	**(0.17)**	(0.11)	**(0.17)**	(0.11)
Operating netbacks	**3.31**	2.67	**3.23**	2.40

The operating netback increased by 24% from US$2.67/mcf in Q3 2015 to US$3.31/mcf in Q3 2016. The primary reason for the increase was the 42% decrease in TPDC share of revenue as a consequence of an increase in the Cost Gas recovered, mainly as a result of the workover and drilling program that was completed in Q1 2016. In addition, there was a 2% increase in the weighted average sales from US$4.66/mcf in Q3 2015 to US$4.73/mcf in Q3 2016. The overall production and distribution cost averaged US$0.21/mcf compared to US$0.22 in Q3 2015.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are detailed in the table below:

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2016**	2015	**2016**	2015
Employee and related costs	**1,934**	1,450	**5,536**	4,205
Stock based compensation	**(80)**	(1,118)	**2,035**	(157)
Office costs	**738**	776	**2,301**	2,450
Marketing and business development costs	**87**	67	**280**	208
Reporting, regulatory and corporate	**387**	530	**1,297**	2,204
General and administrative expenses	**3,066**	1,705	**11,449**	8,910

General and administrative expenses include the costs of running the natural gas distribution business in Tanzania which is recoverable as Cost Gas and is relatively fixed in nature. Excluding stock based compensation, general and administrative expenses averaged US$1.0 million per month during the quarter (Q3 2015: US$0.9 million).

STOCK-BASED COMPENSATION

The breakdown of the costs incurred in relation to stock-based compensation is detailed in the table below:

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2016**	2015	**2016**	2015
Stock appreciation rights ("SARs")	**(76)**	(1,407)	**1,029**	(729)
Restricted stock units ("RSUs")	**(4)**	289	**1,006**	572
Stock-based compensation	**(80)**	(1,118)	**2,035**	(157)

No stock options were outstanding as at 30 September 2016 or 31 December 2015. No options were granted during the quarter (Q3 2015: nil).

As at 30 September 2016, a total of 2,650,000 SARs were outstanding compared to 3,100,000 as at 31 December 2015. A total of 300,000 SARs with an exercise price between CDN$2.30 and CDN$2.70 were exercised during Q2 2016, with a further 90,000 SARs with an exercise price of CDN$2.30 being forfeited during the current quarter. A total of 147,059 RSUs were granted during Q2 2016 and 386,420 RSUs remained outstanding at 30 September 2016 (Q4 2015: nil). The RSUs vested on the date of grant have an exercise price of CDN$ 0.001 and have a five-year term.

As SARs and RSUs are settled in cash, they are re-valued at each reporting date using the Black-Scholes option pricing model with the resulting liability being recognized in trade and other payables. In the valuation of stock appreciation rights and restricted stock units at the reporting date, the following assumptions have been made: a risk free rate of interest of 0.6%; stock volatility of 47.4% to 52.7%; 0% dividend yield; 5% forfeiture; and a closing price of CDN$3.41 per Class B share.

As at 30 September 2016, a total accrued liability of US$3.3 million (Q4 2015: US$1.6 million) has been recognized in relation to SARs and RSUs. The Company recognized a credit of US$0.1 million for the quarter (Q3 2015: credit US$0.2 million).

NET FINANCE EXPENSE

Net finance expense is detailed in the table below:

US$'000	THREE MONTHS ENDED 30 SEPTEMBER 2016	2015	NINE MONTHS ENDED 30 SEPTEMBER 2016	2015
Finance income	**60**	16	**190**	23
Interest expense	**(1,548)**	(266)	**(4,101)**	(266)
Net foreign exchange gain (loss)	**107**	(658)	**(6)**	(2,307)
Provision for doubtful accounts	**(981)**	(447)	**(12,439)**	(447)
Write off bad debt	**(4)**	–	**(4)**	–
Finance expense	**(2,426)**	(1,371)	**(16,550)**	(3,020)
Net finance expense	**(2,366)**	(1,355)	**(16,360)**	(2,997)

The Company billed TANESCO interest for late payments amounting to US$1.1 million in Q3 2016 (Q3 2015: US$0.6 million) and US$3.0 million for the nine months ended 30 September 2016 (nine months ending 30 September 2015: US$1.7 million). The interest income is not recorded in the financial statements because it does not meet the revenue recognition criteria with respect to assurance of collectability. The Company is pursuing collection and amounts will be recognized in earnings when collected. The provision for doubtful accounts for Q3 2016 of US$1.0 million (Q3 2015: US$ nil) and for the nine months ended 30 September 2016 of US$12.4 million (nine months ended 30 September 2015: US$ nil) relates to overdue TANESCO receivables.

The total amount of interest paid in Q3 2016 was US$1.5 million (Q3 2015: US$ nil) and US$4.1 million for the nine months ended 30 September 2016 (nine months ended 30 September 2015 US$ nil). The interest relates to the long term loan with the IFC and is payable quarterly in arrears.

The foreign exchange loss reflects the impact of movements in the value of the Tanzanian shilling against the US dollar during the period on outstanding customer/supplier balances and bank accounts in Tanzanian shillings.

TANESCO

As at 30 September 2016, TANESCO owed the Company US$81.2 million excluding interest (of which arrears were US$74.4 million) compared to US$69.7 million (including arrears of US$61.9 million) as at 31 December 2015. During the quarter, the Company received a total of US$8.6 million (Q3 2015: US$4.0 million) from TANESCO against sales totaling US$10.2 million (Q3 2015: US$10.4 million) and for the nine months ended 30 September 2016, the Company received a total of US$18.8 million against sales totaling US$30.3 million (nine months ending 30 September 2015 received a total of US$34.1 million against sales totaling US$45.8 million). Current TANESCO receivables as at 30 September 2016 amounted to US$6.9 million (Q4 2015: US$7.8 million). Since the quarter end, TANESCO has paid the Company US$3.7 million, and as at the date of this report the total TANESCO receivable is US$80.8 million (of which US$74.3 million has been provided for). The amounts owed do not include interest billed to TANESCO.

Management concluded that the continued recognition of TANESCO revenue is appropriate. In arriving at this conclusion management has taken account of:

- Recent discussions with the World Bank, the IMF and IFC during which the Company found strong support for funding to be directed at TANESCO, supported by a recent visit by the World Bank to Tanzania to address the TANESCO debt.
- TANESCO, according to the World Bank, is now making a small profit. With the seasonal increase in available hydro power and new gas to power facilities coming on line later this year, the need for expensive liquid fuel should significantly reduce. Additionally, TANESCO has recently made an application for a tariff increase to ensure it is able to meet its current obligations.
- During the quarter, TANESCO and the GoT have reconfirmed the commitment to the Company to maintain weekly payments to cover current deliveries and to take action to resolve the TANESCO arrears. During the quarter TANESCO made regular weekly payments.
- The Company believes that given the recent statements and commitments made by the MEM, GoT and the World Bank, the TANESCO receivable will be reduced. However there still exists a high degree of uncertainty as to the actual timing of a conclusive arrangement between the GoT and the World Bank to address the TANESCO arrears and the amount of funds the Company will receive as a result of such arrangements.

TAXATION

Income Tax

Under the terms of the PSA with TPDC and the Government of Tanzania, the Company is liable for income tax in Tanzania at the corporate tax rate of 30%. However, the PSA provides a mechanism by which income tax payable is recovered from TPDC by reducing TPDC's share of Profit Gas and increasing the allocation to the Company. This is reflected in the accounts by increasing the Company's share of revenue by an amount equivalent to income taxes payable.

As at 30 September 2016, there were temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes under the Income Tax Act 2004. Applying the 30% Tanzanian tax rate, the Company has recognized a deferred tax liability of US$12.2 million (Q4 2015: US$9.3 million). During the quarter there was a deferred tax charge of US$1.0 million compared with US$ nil in Q3 2015. The deferred tax has no impact on cash flow until it becomes a current income tax, at which point the tax is paid and recovered from TPDC's share of Profit Gas.

Additional Profits Tax

Under the terms of the PSA, in the event that all costs have been recovered with an annual return of 25% plus the percentage change in the United States Industrial Goods Producer Price Index ("PPI"), an Additional Profits Tax is payable.

The timing and the effective rate of APT depends on the realized value of Profit Gas which in turns depends of the level of expenditure. The Company provides for APT by forecasting annually the total APT payable as a proportion of the forecast Profit Gas over the term of the PSA. The forecast takes into account the timing of future development capital spending.

The Company provides for deferred APT by forecasting the total APT payable as a proportion of the forecast Profit Gas over the term of the PSA. The effective APT rate of 18.6% (Q3 2015: 20.7%) has been applied to Profit Gas of US$1.8 million for the quarter (Q3 2015: US$3.1 million) and US$5.0 million for the nine months ended 30 September 2016 (nine months ended 30 September 2015: US$9.8 million). Accordingly, US$0.3 million has been netted off revenue for the quarter (Q3 2015: US$0.6 million) and US$0.9 million for the nine months ended 30 September 2016 (nine months ended 30 September 2015: US$2.0 million).

DEPLETION AND DEPRECIATION

Natural gas properties are depleted using the unit of production method based on the production for the period as a percentage of the total future production from the Songo Songo proven reserves. As at 31 December 2015 the proven reserves estimated to have been produced over the term of the PSA licence, as evaluated by the independent reservoir engineers, McDaniel & Associates Consultants Ltd., were 368 Bcf (2014: 450 Bcf). A depletion expense of US$2.4 million has been recorded for the quarter (Q3 2015: US$3.1 million); the reduction compared to Q3 2015 is the result of 23% decrease in the average depletion rate to US$0.56/mcf (Q3 2015: US$0.73/mcf). The decrease in the depletion rate is the consequence of the successful completion of the Offshore Program at a lower level of expenditure than planned which in turn reduced expected future development costs from what had been originally forecast at the end of 2014. Non-natural gas properties are depreciated as follows:

Leasehold improvements:	Over remaining life of the lease
Computer equipment:	3 years
Vehicles:	3 years
Fixtures and fittings:	3 years

CARRYING AMOUNT OF ASSETS

Capitalized costs are periodically assessed to determine whether it is likely that such costs will be recovered in the future. To the extent that these capitalized costs are unlikely to be recovered in the future, they are impaired and recorded in earnings.

FUNDS FLOW FROM OPERATING ACTIVITIES

Funds flow from operating activities before working capital changes were US$11.6 million for the quarter (Q3 2015: US$9.5 million) and US$29.7 million for the nine months ended 30 September 2016 (nine months ended 30 September 2015: US$18.1 million)::

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2016**	2015	**2016**	2015
Funds flow from operating activities	**11,572**	9,462	**29,745**	18,063
Change in working capital [1]	**(5,032)**	(12,425)	**(18,122)**	(16,495)
Net cash flows from (used in) operating activities	**6,540**	(2,963)	**11,623**	1,568
Net cash used in investing activities	**(2,780)**	(7,801)	**(27,616)**	(10,411)
Net cash (used in) from financing activities	**(1,518)**	(101)	**35,698**	(158)
Increase (decrease) in cash	**2,242**	(10,865)	**19,705**	(9,001)
Effect of change in foreign exchange on cash	**31**	(123)	**577**	882
Net increase (decrease) in cash	**2,273**	(10,988)	**20,282**	(8,119)

(1) See Condensed Consolidated Interim Statements of Cash Flows (unaudited)

CAPITAL EXPENDITURES

During the quarter the Company incurred no significant capital expenditures (Q3 2015: US$8.3 million). The total capital expenditures for the nine months ended 30 September 2016 of US$16.8 million are net of recharges of US$1.0 million to Songas for its share of costs on wells SS-5 and SS-9 following the completion of the Offshore Program.

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2016**	2015	**2016**	2015
Geological and geophysical and well drilling	**26**	7,578	**16,223**	12,697
Pipelines and infrastructure	**(71)**	547	**466**	977
Other equipment	**–**	150	**104**	197
	(45)	8,275	**16,793**	13,871

WORKING CAPITAL

Working capital as at 30 September 2016 was US$67.6 million (Q4 2015: US$32.5 million) and is detailed in the table below:

	AS AT			
US$'000		**30 SEPTEMBER 2016**		31 DECEMBER 2015
Cash		**74,079**		53,797
Trade and other receivables		**29,406**		25,391
TANESCO	6,881		7,831	
Songas	3,447		2,178	
Industrial customers	6,857		6,894	
Songas gas plant operations	6,153		5,631	
Songas well workover program	14,458		11,209	
Other receivables	1,566		1,604	
Provision for doubtful accounts	(9,956)		(9,956)	
Tax recoverable		**4,371**		4,519
Prepayments		**634**		1,118
		108,490		84,825
Trade and other payables		**38,482**		49,531
TPDC share of Profit Gas (1)	28,542		28,208	
Songas	969		1,071	
Other trade payables	2,535		11,234	
Deferred income	667		667	
Accrued liabilities	5,769		8,351	
Tax payable		**2,373**		2,773
Working capital (2)		**67,635**		32,521

Notes:

(1) Payable to TPDC for their share of profit gas reflects the total accrued liability based on gas delivered to TANESCO which has not been paid for. Settlement of this liability is dependent on receipt of payment from TANESCO.

(2) Working capital as at 30 September 2016 includes a TANESCO receivable (excluding interest) of US$6.9 million (31 December 2015: US$7.8 million). Management has recorded a provision for doubtful accounts against the long-term receivables in excess of 60 days totaling US$74.4 million (31 December 2015: US$61.9 million). The total of long and short-term TANESCO receivables, excluding interest, as at 30 September 2016 was US$81.2 million (31 December 2015: US$ 69.7 million). The financial statements do not recognize the interest receivable from TANESCO as it does not meet IAS 18 income recognition criteria. The Company is however actively pursuing the collection of all the receivables and the interest that has been charged to TANESCO.

Working capital as at 30 September 2016 increased by 108% over 31 December 2015, primarily as a result of having drawn down the balance of the loan from the IFC and the reclassification of a further US$12.4 million of TANESCO receivables as long-term. Other significant points are:

- There are no restrictions on the movement of cash from Mauritius or Tanzania, and as at the date of this report, approximately 83% of cash is held outside of Tanzania.
- Since the quarter end the Company has received US$3.7 million from TANESCO and US$3.1 million from Songas.
- Of the US$6.9 million receivable relating to industrial customers, US$5.4 million had been received as at the date of this report.

The balance of US$28.5 million payable to TPDC represents the remaining balance of its accrued share of revenue as at 30 September 2016. The settlement of this liability is dependent on receipts of payment from TANESCO.

LONG TERM LOAN

On 29 October 2015, the Company entered into an agreement with the IFC, a member of the World Bank Group, to provide financing of up to US$60 million for the Company's operating subsidiary, PAET. The Company has drawn the US$60 million Loan facility in full, with an initial drawdown of US$20 million on 14 December 2015 followed by an additional draw down of US$40 million on 9 February 2016.

The term of the Loan is 10-years, with no required repayment of principal for the first seven years, followed by a three-year amortization period. The Loan is to be paid out through six semi-annual payments of US$5 million and one final payment of US$30 million. The Company may voluntarily prepay all or part of the Loan but must simultaneously pay any accrued base interest costs related to the principal amount being prepaid. If any portion of the Loan is prepaid prior to the fourth anniversary of the first drawdown, the Company would be required to pay the accrued base interest as if the prepaid portion of the Loan had remained outstanding for the full four years. The Loan is an unsecured subordinated obligation of PAET and is guaranteed by the Company to a maximum of US$30 million. The guarantee may only be called upon by IFC at maturity in 2025. Subject to receipt of IFC and required regulatory approvals, the Company may issue shares in fulfillment of all or part of the guarantee obligation in 2025.

Base interest on the Loan is payable quarterly at 10% per annum on a 'pay-if-you-can-basis' using a formula to calculate the net cash available for such payments as at any given interest payment date. The Company must provide notice to the IFC of the amount of any interest which is not to be paid on any interest payment date the unpaid interest is added to the principal outstanding and may be paid out before or at the time of principal repayment. In addition, an annual variable participatory interest equating to 7% of the cash flow of PAET net of capital expenditures is payable in respect of any given year, commencing with 2016. The participatory interest survives the repayment and/or maturity of the Loan until 15 October 2026. No provision has been made for the three and nine months ended 30 September 2016 as the projection of current cash flow less capital expenditures for 2016 is a negative amount. Dividends and distributions from PAET to the Company are restricted at any time that amounts of unpaid interest, principal or participating interest are outstanding.

SHAREHOLDERS' EQUITY AND OUTSTANDING SHARE DATA

There were 34,856,432 shares outstanding as at 30 September 2016 as detailed in the table below:

	AS AT	
Number of shares ('000)	**30 SEPTEMBER 2016**	31 DECEMBER 2015
Shares outstanding		
Class A shares	**1,751**	1,751
Class B shares	**33,106**	33,106
Class A and Class B shares outstanding	**34,857**	34,857
Weighted average		
Class A and Class B shares	**34,857**	34,889
Convertible securities		
Options	**–**	–
Weighted average diluted Class A and Class B shares	**34,857**	34,889

As at the date of this report, there were a total of 1,750,517 Class A common voting shares ("Class A shares") and 33,105,915 Class B subordinated voting shares ("Class B shares") outstanding.

RELATED PARTY TRANSACTIONS

One of the non-executive Directors is counsel with a law firm that provides legal advice to the Company and its subsidiaries. During the quarter, the Company incurred US$0.01 million (Q3 2015: US$0.2 million) and US$0.1 million for the nine months ended 30 September 2016 (nine months ended 30 September 2015 US$0.4 million) to this firm for services provided.

One officer, acting as an Executive Vice-President, provided services to the Company through a consulting agreement with a personnel services company. During the quarter, the Company incurred US$0.1 million (Q3 2015: US$0.1 million) and US$0.2 million for the nine months ended 30 September 2016 (nine months ended 30 September 2015: US$0.3 million) to this firm for services provided.

As at 30 September 2016, the Company has a total of US$ nil (30 September 2015: US$0.2million) recorded in trade and other payables in relation to the related parties.

CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

Protected Gas

Under the terms of the original Gas Agreement for the Songo Songo project ("Gas Agreement"), in the event that there is a shortfall/insufficiency in Protected Gas as a consequence of the sale of Additional Gas, the Company is liable to pay the difference between the price of Protected Gas (US$0.55/MMbtu escalated) and the price of an alternative feedstock multiplied by the volumes of Protected Gas up to a maximum of the volume of Additional Gas sold (163.5 Bcf as at 30 September 2016). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the term of the Protected Gas delivery obligation to July 2024.

Re-Rating Agreement

In 2011, the Company signed a re-rating agreement with TANESCO and Songas (the "Re-Rating Agreement") to increase the gas processing capacity to a maximum of 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of the Re-Rating Agreement, the Company effectively pays an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the tariff of US$0.59/ mcf payable to Songas as set by the energy regulator, EWURA. The Re-Rating agreement expired in 2013. Since the formal expiry of the agreement, production has continued within the higher rated limit and, given the Government's interest in pursuing further development and increasing gas production, the Company expects this to continue. However, there are no certainty that this will occur.

Under the terms of this agreement, the Company agreed to indemnify Songas for damage to its facilities caused by the re-rating, up to a maximum of US$15 million, but only to the extent that this was not already covered by indemnities from TANESCO's or Songas' insurance policies.

Capital Commitments

Tanzania

There are no contractual commitments for exploration or development drilling or other field development either in the PSA or otherwise agreed which would give rise to significant capital expenditure at Songo Songo. Any significant additional capital expenditure in Tanzania is discretionary.

Given the completion of the Offshore component of Phase I of the Development Program in February 2016, which has restored field deliverability and provides sufficient natural gas production to fill the Songas plant and pipeline to capacity for the greater portion of the remaining life of the production licence, the Company does not expect to commit to further significant capital expenditures until: (i) agreeing commercial terms with TPDC for the supply of gas to the NNGIP regarding the sale of incremental gas volumes from Songo Songo; and/or (ii) TANESCO arrears have been substantially reduced, guaranteed or other arrangements for payment made which are satisfactory to the Company; and/or (iii) the establishment of payment guarantees with the World Bank or other multi-lateral lending agencies to secure future receipts under any new sales contracts with Government entities.

When conditions are deemed appropriate and there is justification to further improve the reliability/capacity of field deliverability, the Company may contemplate undertaking the remaining part or all of the Phase I Development Program which includes the tie-in of well SS12 to the NNGIP, on-shore work-overs of wells SS-3, SS-4 and SS-10 and installation of refrigeration and compression equipment. The additional costs are estimated to be approximately US$30 million.

Italy

The Company has an agreement to farm in on the Central Adriatic B.R268.RG Permit offshore Italy. The farm-in commits the Company to fund 30% of the Elsa-2 appraisal well up to a maximum of US$11.5 million to earn a 15% working interest in the permit. Thereafter, the Company will fund all future costs relating to the well and the permit in proportion to its participating interest. The Company has also agreed to pay fifteen per cent (15%) of the back costs in relation to the well up to a maximum of US$0.5 million. Changes in Italian environmental legislation in late 2015 have resulted in the development of this permit being postponed and until the development permit is approved, the Company has no further capital commitments in Italy.

CONTINGENCIES

The Petroleum Act, 2015

During the third quarter of 2015, The Petroleum Act, 2015 was passed into law. The Act repeals earlier legislation, provides a regulatory framework over upstream, mid-stream and downstream gas activity, and consolidates and puts in place a comprehensive legal framework for regulating the oil and gas industry in the country. The Act also provides for the creation of an upstream regulator, the Petroleum Upstream Regulatory (PURA). The mid and downstream oil and gas activities are proposed to be regulated by the current authority, the Energy and Water Utilities Regulatory Authority (EWURA). The bill also confers upon on TPDC, the status of the National Oil Company, mandated with the task of managing the country's commercial interest in petroleum operations as well as mid and downstream natural gas activities. The bill vests TPDC with exclusive rights in the entire petroleum upstream value chain and the natural gas mid and downstream value chain. However, the exclusive rights of TPDC do not extend to mid and downstream petroleum supply operations. The Company is uncertain regarding the potential impact on its business in Tanzania. The Act does provide grandfathering provisions upholding the rights of the Company under their PSA as it was signed prior to passing of the Act. However, it is still unclear how the provisions of the Act will be interpreted and implemented regarding upstream and downstream activities.

Cost recovery

TPDC conducted an audit of the historic Cost Pool and in 2011 disputed approximately US$34 million of costs that had been recovered from the Cost Pool from 2002 through to 2009. In 2014 TPDC and the Company agreed to remove approximately US$1.0 million from the Cost Pool and TPDC agreed that US$9.4 million was no longer in dispute. There have been no further developments during 2015 or the first three quarters of 2016. Under the dispute mechanism outlined in the PSA, TPDC are to appoint an independent specialist to assist the parties in reaching agreement on costs that are still subject to dispute. At the time of writing this report no such specialist has been appointed.

Taxation

		Tax dispute	Disputed amount US$' million		
Area	**Period**	**Reason for dispute**	**Principal**	**Interest**	**Total**
PAYE	2008-10	Pay-As-You-Earn ("PAYE") withholding tax on taxable income of employees on grossed up equivalent of staff salaries, which are contractually stated as net.	0.3	-	*0.3* (1)
WHT	2005-10	WHT on services by non-resident persons performed outside of Tanzania.	1.1	0.7	*1.8* (2)
Income Tax	2008-13	Deductibility of capital expenditures and expenses (2009 and 2012), additional income tax (2008, 2010, 2011 and 2012), tax on repatriated income (2012), foreign exchange rate application (2013 and 2015) and underestimation of tax due (2014).	16.8	10.1	*26.9* (3)
VAT	2008-10	Output VAT on imported services and SSI Operatorship services.	2.7	2.9	*5.6* (4)
			20.9	13.7	34.6

(1) During 2015, PAET appealed the Tax Revenue Appeals Board ("TRAB") ruling that PAET is liable to pay PAYE on grossed up equivalent of staff salaries. PAET is awaiting appeal date to be set up with the Tax Revenue Appeals Tribunal ("TRAT");

(2) 2005-2009 (US$1.8 million): During Q2 2016, the Court of Appeal TRAT ruled in favor of PAET. During Q3 2016, TRA has filed an application for review of the case and later filed another application for leave to amend its earlier application. PAET is awaiting a review date to be set up by the Court of Appeal;

2010 (US$0.1 million): TRAB is awaiting a ruling from the review by the Court of Appeal on the 2005-2009 case, which would influence TRAB decision on this matter accordingly;

(3) (a) 2009 (US$1.8 million): During 2015, TRAB ruled against PAET with respect to the deductibility of capital expenditures and other expenses. PAET appealed to TRAT and is awaiting a hearing date to be scheduled;

(b) 2008, 2010-2011 (US$4.7 million): During 2015, PAET filed objections against TRA assessments with respect to the deductibility of capital expenditures and other expenses as well as underestimation of interest and is awaiting a response. Subsequent to the end of Q3 2016, PAET received an amended assessment with respect to deductibility of capital allowance for 2010, increasing the total assessment by US$0.2 million. PAET is preparing to appeal the assessment at TRAB;

(c) 2013 (US$0.2 million): During 2015, PAET filed objections to TRA assessment with respect to foreign exchange rate application and is awaiting a response;

(d) 2012 (US$16.3 million): During Q2 2016, TRA issued two assessments with respect to understated revenue, deductibility of capital expenditures and expenses, and tax on repatriated income. During Q3 2016, PAET filed objections to these assessments and is awaiting a response;

(e) 2014 (US$3.5 million): During Q3 2016, TRA issued an assessment with respect to underestimation of tax due based on the provisional quarterly payments made by PAET, delayed filings of returns and late payments. PAET filed objections to the assessments and is awaiting a response;

(f) 2015 (US$0.4 million): During Q3 2016, TRA issued a self-assessment. PAET filed an objection to the assessment with respect to foreign exchange rate application and is awaiting a response;

The PSA provides a mechanism by which income tax payable is eligible for recovery through increasing profit share allocations to the Company. The total income tax assessments by the TRA increased by US$0.6 million from Q2 2016.

(4) In 2014, PAET filed an objection to TRA's claims and is awaiting a response.

Management, with the advice from its legal counsel, has reviewed the Company's position on the above objections and appeals and has concluded that no provision is required with regard to the above matters.

SUMMARY QUARTERLY RESULTS OUTSTANDING

The following is a summary of the results for the Company for the last eight quarters:

	2016			2015				2014
Figures in US$'000 except where otherwise stated	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
Revenue	**17,744**	14,572	15,810	15,872	15,943	12,553	9,720	9,645
Net income (loss)	**5,302**	1,452	(5,638)	(6,468)	6,112	3,566	(1,677)	(46,381)
Earnings (loss) per share – basic and diluted *(US$)*	**0.15**	0.04	(0.16)	(0.19)	0.18	0.1	(0.05)	(1.32)
Funds flow from operating activities	**11,572**	8,320	9,853	8,508	9,462	4,889	3,712	8,733
Funds flow per share – basic and diluted *(US$)*	**0.33**	0.24	0.28	0.24	0.27	0.14	0.11	0.25
Cash flow from (used in) operating activities	**6,540**	6,237	(1,154)	5,450	(2,963)	(2,844)	7,375	(2,235)
Cash flows (utilized) per share – basic and diluted *(US$)*	**0.19**	0.18	(0.03)	0.16	(0.08)	(0.08)	0.21	(0.06)
Operating netback *(US$/mcf)*	**3.31**	3.32	3.08	3.03	2.67	2.68	1.86	1.69
Working capital	**67,635**	58,395	56,340	32,521	39,660	38,067	34,870	34,148
Long-term loan	**58,398**	58,368	58,350	18,599	–	–	–	–
Shareholders' equity	**79,153**	73,887	72,482	78,154	84,476	78,480	74,944	76,635
Capital expenditures								
Geological and geophysical and well drilling	**26**	2,558	13,639	23,099	7,578	4,135	984	522
Pipeline and infrastructure	**(71)**	181	356	1,382	547	275	155	193
Other equipment	**–**	102	2	59	150	47	–	3
Operating								
Additional Gas sold – industrial *(MMcf)*	**1,238**	1,151	972	1,089	1,137	1,015	925	1,084
– industrial *(MMcfd)*	**13.5**	12.6	10.7	11.8	11.9	11.1	10.3	11.8
Additional Gas sold – power *(MMcf)*	**3,047**	2,521	3,241	3,483	3,127	3,041	3,494	3,377
– power *(MMcfd)*	**33.1**	27.7	35.6	37.9	34.5	33.4	38.8	36.7
Average price per mcf – industrial *(US$)*	**7.60**	7.64	8.15	7.62	7.67	7.45	7.54	8.24
Average price per mcf – power *(US$)*	**3.57**	3.55	3.55	3.56	3.62	3.47	3.49	3.49

PRIOR EIGHT QUARTERS

The Company's revenue for the last two years has fluctuated between quarters due to several factors including seasonal issues such as the availability of hydro power, scheduled and unscheduled maintenance by customers resulting in reduced demand, declining well production capacity, a drop in world HFO prices and increased competition for supply of gas within Tanzania.

The drop in sales in Q4 2014 saw the Company's share of Profit Gas drop from 55% to 40% (see "Principal Terms of the Tanzanian PSA and Related Agreements") as the volumes of Additional Gas sold were below 50 MMcfd, where it has remained for the last six quarters. The increase in revenue from Q2 2015 is directly related to the capital expenditure program which has permitted the Company to take a significantly increased share of revenue as Cost Gas, with the underlying sales volumes remaining fairly static from Q2 2015 to Q3 2016.

Changes in net income over the last two years have negatively impacted by the impairment provisions relating to TANESCO. In Q4 2014 the Company recorded a US$52.2 million doubtful debt provision against TANESCO arrears. In Q4 2015, Q1 2016 and Q2 2016 and Q3 2016 additional doubtful debt provisions of US$9.8 million, US$8.0 million, US$3.5 million and US$1.0 million respectively were provided against increased TANESCO arrears. Other significant factors affecting the results were:

- The collapse of the Tanzanian Shilling led to a Q4 2014 exchange loss of US$4.8 million and a further loss of US$1.8 million in Q1 2015.
- In Q4 2014 the Company wrote off US$5.1 million relating to site survey costs for an exploration well which it no longer plans to drill.
- In Q1 2016 the Company took a charge of US$2.8 million for stock based compensation as a consequence of the share price closing at CDN$4.14 compared to CDN$2.75 at the end of Q4 2015 together with the issuance of new Restrictive Stock Units.
- In Q2 2016 the Company had a decrease in the stock based compensation charge of US$0.7 million as the share price closed at CN$3.40 at the end of the quarter.
- In Q3 2016 the Company recorded a credit of US$0.1 million for stock based compensation compared to a credit of US$1.1 million in Q3 2015. The Company recorded an interest expense of US$1.0 million in Q1 2016 and US$1.5 million in Q2 and Q3 2016 in relation to the loan from the IFC.

Funds flow from operations for the last four quarters has been fairly steady. Differences between quarters were primarily a result of changes in revenue during the periods. The increase in the funds flow from operations to US$11.6 million in Q3 2016 from US$8.3 million in Q2 2016 is primarily the result of the US$3.3 million increase in revenue over the quarter. In Q2 and Q1 of 2015, funds flow decreased reflecting the drop in revenue during these periods due to declining well production and lower Cost Pool levels reducing the Company's share of revenues. In Q4 2014, there was a large allowance for doubtful accounts taken against the TANESO receivable which significantly increased funds flow from operations in comparison to the revenue for the period.

Changes in cash flow from (used in) operations between quarters were primarily a result of the timing of receipt of payments from TANESCO.

The decrease in working capital from Q3 2015 to Q4 2015 was a consequence of the increase in creditors associated with the workover and drilling program together with the additional bad debt provision against TANESCO, both of which were offset by the initial draw down of US$18.6 million from the IFC (net of expenses). The second draw down from the IFC of US$40 million in Q1 2016 has offset the decrease in working capital associated with the completion of the workover and drilling program from Q4 2015 to Q1 2016.

Capital expenditure for the last four quarters Q4 2015 to Q3 2016 has amounted to US$41.3 million compared to US$14.6 million from Q4 2014 to Q3 2015. The 2015 workover and drilling program commenced in Q3 2015 with some preliminary expenditure in Q2 2015.

The level of Industrial volumes increased in the four quarters ending Q3 2016 to an average of 1,113 MMcf from an average of 1,040 MMcf for the four quarters ending Q3 2015. Overall for the past eight quarters, the level of industrial sales has remained static.

The level of Power volumes decreased by 6% in the in the four quarters ending Q3 2016 to an average of 3,073 MMcf from an average of 3,260 MMcf for the four quarters ending Q3 2015, the decline is mainly the consequence of the decision by TANESCO not to renew a contract with an emergency power plant, unscheduled maintenance at the Songo Ubungo Power generation facility and the increased competition for supply of gas within Tanzania.

ORCA EXPLORATION GROUP INC.

FINANCIAL STATEMENTS & NOTES

NOTIFICATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the condensed consolidated interim financial statements (unaudited) for the three and nine months ended 30 September 2016 (the "consolidated financial statements").

Condensed Consolidated Interim Statements of Comprehensive Income (unaudited)

ORCA EXPLORATION GROUP INC.		THREE MONTHS ENDED 30 SEPTEMBER		SIX MONTHS ENDED 30 SEPTEMBER	
US$'000	Note	**2016**	2015	**2016**	2015
Revenue	*6, 7*	**17,744**	15,943	**48,126**	38,216
Production and distribution		**(901)**	(942)	**(3,005)**	(2,941)
Net production revenue		**16,843**	15,001	**45,121**	35,275
Operating Expenses					
General and administrative		**(3,066)**	(1,705)	**(11,449)**	(8,910)
Depletion		**(2,402)**	(3,081)	**(6,822)**	(9,270)
Operating income		**11,375**	10,215	**26,850**	17,095
Net finance (expense)	*8*	**(2,366)**	(1,355)	**(16,360)**	(2,997)
Income before tax		**9,009**	8,860	**10,490**	14,098
Income tax - current	*9*	**(2,703)**	(2,748)	**(6,506)**	(6,351)
Income tax - (deferred) recovery	*9*	**(1,004)**	-	**(2,868)**	254
Net income		**5,302**	6,112	**1,116**	8,001
Foreign currency translation loss from foreign operations		**(36)**	(27)	**(117)**	(14)
Comprehensive income		**5,266**	6,085	**999**	7,987
Income per share *(US$)*					
Basic and diluted	*16*	**0.15**	0.18	**0.03**	0.23

See accompanying notes to the consolidated financial statements.

Condensed Consolidated Interim Statements of Financial Position (unaudited)

ORCA EXPLORATION GROUP INC. US$'000	Note	AS AT 30 SEPTEMBER 2016	31 DECEMBER 2015
Assets			
Current assets			
Cash and cash equivalents		**74,079**	53,797
Trade and other receivables	*11*	**29,406**	25,391
Tax recoverable	*9*	**4,371**	4,519
Prepayments		**634**	1,118
		108,490	84,825
Non-current assets			
Long-term receivable	*11*	**562**	584
Property, plant and equipment	*12*	**113,773**	104,274
		114,335	104,858
Total Assets		**222,825**	189,683
Equity and liabilities			
Current liabilities			
Trade and other payables	*13*	**38,482**	49,531
Tax payable		**2,373**	2,773
		40,855	52,304
Non-current liabilities			
Deferred income taxes	*9*	**12,180**	9,312
Long-term loan	*14*	**58,398**	18,599
Deferred Additional Profits Tax	*10*	**32,239**	31,314
		102,817	59,225
Total liabilities		**143,672**	111,529
Equity			
Capital stock	*15*	**85,488**	85,488
Contributed surplus		**6,347**	6,347
Accumulated other comprehensive loss		**(203)**	(86)
Accumulated loss		**(12,479)**	(13,595)
		79,153	78,154
Total equity and liabilities		**222,825**	189,683

See accompanying notes to the consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 15 November 2016.

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

ORCA EXPLORATION GROUP INC.

US$'000	Note	THREE MONTHS ENDED 30 SEPTEMBER 2016	2015	NINE MONTHS ENDED 30 SEPTEMBER 2016	2015
Operating activities					
Net income		**5,302**	6,112	**1,116**	8,001
Adjustment for:					
Depletion and depreciation	*12*	**2,560**	3,282	**7,294**	9,782
Provision for doubtful debts	*8*	**981**	447	**12,439**	447
Stock-based (recovery) compensation	*15*	**(80)**	(1,118)	**1,697**	(157)
Deferred income taxes (recovery)	*9*	**1,004**	–	**2,868**	(254)
Deferred Additional Profits Tax	*10*	**329**	593	**925**	2,020
Interest expense	*8*	**1,548**	–	**4,101**	–
Unrealized (gain) loss on foreign exchange		**(72)**	146	**(695)**	(1,776)
Funds flow from operating activities		**11,572**	9,462	**29,745**	18,063
(Increase) decrease in trade and other receivables		**(6,145)**	(9,908)	**(3,991)**	18,143
(Increase) decrease in tax recoverable		**(1,108)**	(1,158)	**148**	5,740
Decrease in prepayments		**465**	144	**484**	17
Increase (decrease) in trade and other payables		**1,918**	(2,873)	**(1,946)**	(35,645)
Increase (decrease) in tax payable		**813**	1,361	**(400)**	(4,756)
(Increase) decrease in long-term receivable		**(975)**	9	**(12,417)**	6
Net cash flows from (used in) operating activities		**6,540**	(2,963)	**11,623**	1,568
Investing activities					
Property, plant and equipment expenditures	*12*	**45**	(8,275)	**(16,793)**	(13,871)
Change in working capital related to investing activities		**(2,825)**	4,74	**(10,823)**	3,460
Net cash used in investing activities		**(2,780)**	(7,801)	**(27,616)**	(10,411)
Financing activities					
Normal course issuer bid		**–**	(101)	**–**	(158)
Interest paid	*8*	**(1,548)**	–	**(4,101)**	–
Increase in long-term loan	*14*	**30**	–	**39,799**	–
Net cash flow (used in) from financing activities		**(1,518)**	(101)	**35,698**	(158)
Increase (decrease) in cash		**2,242**	(10,865)	**19,705**	(9,001)
Cash and cash equivalents at the beginning of the period		**71,806**	60,528	**53,797**	57,659
Effect of change in foreign exchange on cash in the period		**31**	(123)	**577**	882
Cash and cash equivalents at the end of the period		**74,079**	49,540	**74,079**	49,540

See accompanying notes to the consolidated financial statements.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (unaudited)

ORCA EXPLORATION GROUP INC. *US$'000*	Capital stock	Contributed surplus	Cumulative translation adjustment	Accumulated loss	Total
Note 15					
Balance as at 1 January 2016	85,488	6,347	(86)	(13,595)	78,154
Foreign currency translation adjustment on foreign operations	–	–	(117)	–	(117)
Net income	–	–	–	1,116	1,116
Balance as at 30 September 2016	**85,488**	**6,347**	**(203)**	**(12,479)**	**79,153**

US$'000	Capital stock	Contributed surplus	Cumulative translation adjustment	Accumulated loss	Total
Note 15					
Balance as at 1 January 2015	85,637	6,356	(230)	(15,128)	76,635
Normal course issuer bid	(149)	(9)	–	–	(158)
Foreign currency translation adjustment on foreign operations	–	–	(14)	–	(14)
Net income	–	–	–	8,001	8,001
Balance as at 30 September 2015	85,488	6,347	(244)	(7,127)	84,464

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Interim Financial Statements (unaudited)

General Information

Orca Exploration Group Inc. was incorporated on 28 April 2004 under the laws of the British Virgin Islands. The Company produces and sells natural gas to the power and industrial sectors in Tanzania.

The consolidated financial statements of the Company as at and for the three and nine months ended 30 September 2016 comprise accounts of the Company and all its wholly owned subsidiaries (collectively, the "Company" or "Orca Exploration") and were authorized for issue in accordance with a resolution of the directors on 15 November 2016.

1 NATURE OF OPERATIONS

The Company's principal operating asset is its interest in a Production Sharing Agreement ("PSA") with the Tanzania Petroleum Development Corporation ("TPDC") and the Government of Tanzania ("GoT") in the United Republic of Tanzania. This PSA covers the production and marketing of certain gas from the Songo Songo Block offshore Tanzania.

The PSA defines gas in the Songo Songo field as "Protected Gas" and "Additional Gas". The "Protected Gas" is owned by TPDC and is sold under a 20-year agreement until July 2024 ("Gas Agreement") to Songas Limited ("Songas"). Songas is the owner of the infrastructure that enables the gas to be delivered to Dar es Salaam, which includes a gas processing plant on Songo Songo Island.

Songas utilizes the Protected Gas as feedstock for its gas turbine electricity generators for onward sale to customers. The Company receives no revenue for the Protected Gas delivered to Songas and operates the field and gas processing plant on a 'no gain no loss' basis.

Under the PSA, the Company has the right to produce and market all gas in the Songo Songo Block in excess of the Protected Gas requirements ("Additional Gas").

The Tanzania Electric Supply Company Limited ("TANESCO") is a parastatal organization which is wholly-owned by the GoT, with oversight by the Ministry of Energy and Minerals ("MEM"). TANESCO is responsible for the generation, transmission and distribution of electricity throughout Tanzania. The Company currently supplies gas directly to TANESCO by way of a Portfolio Gas Supply Agreement ("PGSA") and indirectly through the supply of Protected Gas and Additional Gas to Songas which in turn generates and sells power to TANESCO. The state utility is the Company's largest customer.

In addition to gas supplied to Songas and TANESCO for the generation of power, the Company has developed and supplies an industrial gas market in the Dar es Salaam area consisting of some 38 industrial customers.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis and have been prepared using the accrual basis of accounting. The consolidated financial statements are presented in US dollars ("US$").

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and do not include all information required for full annual financials and should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2015.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies are set forth in Note 3 to the audited consolidated financial statements for the year ended 31 December 2015. There have been no changes in accounting policies for the nine-month period ended 30 September 2016 and the policies have been applied consistently to all periods presented in the consolidated financial statements.

4 USE OF ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ materially from these estimates. In preparing these consolidated financial statements, the significant judgements made by the management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended 31 December 2015.

See Note 4 of the audited consolidated financial statements for the year ended 31 December 2015 for a full discussion.

5

RISK MANAGEMENT

The Company, by its activities in oil and gas exploration, development and production, is exposed to the risk associated with the unpredictable nature of the financial markets as well as political risk associated with conducting operations in an emerging market. The Company seeks to manage its exposure to these risks wherever possible.

A. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from TANESCO and Songas. The carrying amount of accounts receivable and the long-term receivable represents the maximum credit exposure. As of 30 September 2016 and 31 December 2015, other than the provisions against the long-term TANESCO receivable and gas plant operations charges and capital expenditure receivables due from Songas, the Company does not have an allowance for doubtful accounts against any other receivables nor was it required to write-off any other receivables (see Note 11).

All of the Company's production is currently derived in Tanzania. The sales are made to the Power sector and the Industrial sector. In relation to sales to the Power sector, the Company has a contract with Songas for the supply of gas to the Ubungo power plant and a contract with TANESCO to supply approximately 37 MMcfd of gas. The contracts with Songas and TANESCO accounted for 53% of the Company's operating revenue during the year and US$105.3 million of the short and long-term receivables prior to provision for the nine months ended 30 September 2016.

TANESCO has continued to experience financial difficulties during 2016, which has resulted in the continuation of irregular and inconsistent payments for gas deliveries. As a result, management has placed a provision for doubtful debts against the entire amount of arrears due from TANESCO, US$74.4 million as at 30 September 2016 (31 December 2015: US$61.9 million).

Sales to the Industrial sector, currently 38 customers, are subject to an internal credit review to minimize the risk of non-payment.

The Company manages the credit exposure related to cash and cash equivalents by selecting counterparties based on credit ratings and monitoring all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper. The Company's cash resources are placed with reputable financial institutions with no history of default.

B. Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its liabilities. Cash forecasts identifying liquidity requirements of the Company are produced on a regular basis. These are reviewed to ensure sufficient funds exist to finance the Company's current operational and investment cash flow requirements. The Company has US$38.5 million of financial liabilities with regards to trade and other payables of which US$37.6 million is due within one to three months, US$ nil is due within three to six months, and US$0.9 million is due within six to twelve months (see Note 13). As at 30 September 2016 the Company had a current tax liability of US$2.4 million.

At the end of the quarter a significant proportion of the current liabilities relate to TPDC. The amounts due to TPDC represent its share of Profit Gas; in accordance with the terms of the PSA TPDC is entitled to the payment of its share of Profit Gas on a quarterly basis in relation to cash receipts during the quarter. However, given the difficulties in collecting from TANESCO, the Company has been settling and intends to continue to settle these amounts on a pro rata basis in accordance with amounts received from TANESCO (see Note 11).

6 SEGMENT INFORMATION

The Company has one reportable industry segment which is international exploration, development and production of petroleum and natural gas. The Company currently has producing and exploration assets in Tanzania and had exploration and appraisal interests in Italy (see Note 18).

	THREE MONTHS ENDING 30 SEPTEMBER					
			2016			2015
US$'000	**Italy**	**Tanzania**	**Total**	Italy	Tanzania	Total
External revenue	**–**	**17,744**	**17,774**	–	15,943	15,943
Segment income	**–**	**5,302**	**5,302**	–	6,112	6,112
Non-cash charge (1)	**–**	**981**	**981**	–	447	447
Depletion and depreciation	**–**	**2,560**	**2,560**	–	3,282	3,282

	NINE MONTHS ENDING 30 SEPTEMBER					
			2016			2015
US$'000	**Italy**	**Tanzania**	**Total**	Italy	Tanzania	Total
External revenue	**–**	**48,126**	**48,126**	–	38,216	38,216
Segment income	**–**	**1,116**	**1,116**	–	8,001	8,001
Non-cash charge (1)	**–**	**12,439**	**12,439**	–	447	447
Depletion and depreciation	**–**	**7,294**	**7,294**	–	9,782	9,782

	AS AT					
			30 SEPTEMBER 2016			31 DECEMBER 2015
US$'000	**Italy**	**Tanzania**	**Total**	Italy	Tanzania	Total
Capital additions	**–**	**16,793**	**16,793**	–	38,411	38,411
Total assets	**1,608**	**221,217**	**222,825**	1,621	188,062	189,683
Total liabilities	**105**	**143,567**	**143,672**	131	111,398	111,529

(1) Non-cash charge represent amounts provided for doubtful accounts receivable from TANESCO.

7

REVENUE

US$'000	THREE MONTHS ENDED 30 SEPTEMBER 2016	2015	NINE MONTHS ENDED 30 SEPTEMBER 2016	2015
Industrial sector	**9,405**	9,845	**26,120**	24,370
Power sector	**10,879**	11,470	**31,337**	34,227
Gross sales revenue	**20,284**	21,315	**57,457**	58,597
Processing and transportation tariff	**(2,545)**	(2,930)	**(7,624)**	(9,053)
Net revenue	**17,739**	18,385	**49,833**	49,544
TPDC share of revenue	**(2,661)**	(4,582)	**(7,475)**	(14,639)
Company operating revenue	**15,078**	13,803	**42,358**	34,905
Additional Profits Tax charge	**(329)**	(593)	**(925)**	(2,020)
Current income tax adjustment	**2,995**	2,733	**6,693**	5,331
Revenue	**17,744**	15,943	**48,126**	38,216

The Company's total revenues for the quarter and nine months ended 30 September 2016 amounted to US$17.7 million (Q3 2015: US$15.9 million) and US$48.1 million (nine months ended 30 September 2015: US$38.2 million), respectively, after adjusting the Company's operating revenue of US$15.1 million (Q3 2015: US$13.8 million) and US$42.4 million (nine months ended 30 September 2015: US$34.9 million) by:

i) Adding US$3.0 million and US$6.7 million for income tax for the quarter and for the nine months ended 30 September 2016. The Company is liable for income tax in Tanzania, but the income tax is recoverable out of TPDC's Profit Gas when the tax is payable. To account for this, revenue is adjusted to include the current income tax charge grossed up at 30% (see Note 9); and,

ii) Subtracting US$0.3 million and US$0.9 million for deferred Additional Profits Tax charged for the quarter and for nine months ended 30 September 2016. This tax is considered a royalty and is presented as a reduction in revenue.

8

NET FINANCE EXPENSE

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2016**	2015	**2016**	2015
Finance income	**60**	16	**190**	23
Interest expense	**(1,548)**	(266)	**(4,101)**	(266)
Net foreign exchange gain (loss)	**107**	(658)	**(6)**	(2,307)
Write off bad debt	**(4)**	–	**(4)**	–
Provision for doubtful accounts	**(981)**	(447)	**(12,439)**	(447)
Finance expense	**(2,426)**	(1,371)	**(16,550)**	(3,020)
Net finance expense	**(2,366)**	(1,355)	**(16,360)**	(2,997)

The Company billed TANESCO interest for late payments amounting to US$1.1 million in Q3 2016 (Q3 2015: US$0.6 million) and US$3.0 million for the nine months ended 30 September 2016 (nine months ended 30 September 2015: US$1.7 million). The interest income is not recorded in the financial statements because it does not meet the revenue recognition criteria with respect to assurance of collectability. The Company is pursuing collection and amounts will be recognized in earnings when collected. The provision for doubtful accounts includes US$1.0 million for Q3 2016 (Q3 2015: US$ nil) and US$12.4 million for the nine months ended 30 September 2016 (nine months ended 30 September 2015: US$ nil) for overdue TANESCO receivables. The total amount of interest paid was US$1.5 million for Q3 2016 (Q3 2015: US$ nil) and US$4.1 million for the nine months ended 30 September 2016 (nine months ended 30 September 2015: US$ nil). The interest relates to the long term loan with the IFC and is payable quarterly in arrears.

9 INCOME TAXES

The tax charge is as follows:

US$'000	THREE MONTHS ENDED 30 SEPTEMBER 2016	2015	NINE MONTHS ENDED 30 SEPTEMBER 2016	2015
Current tax	**2,703**	2,748	**6,506**	6,351
Deferred tax expense (recovery)	**1,004**	-	**2,868**	(254)
	3,707	2,748	**9,374**	6,097

The Company made provisional tax payments totaling US$1.9 million for Q3 2016 (Q3 2015: US$1.5 million) and US$5.7 million for the nine months ended 30 September 2016 (nine months ended 30 September 2015: US$4.5 million). These are presented as a reduction in tax payable on the statement of financial position.

Tax rate reconciliation

US$'000	THREE MONTHS ENDED 30 SEPTEMBER 2016	2015	NINE MONTHS ENDED 30 SEPTEMBER 2016	2015
Income before tax	**9,009**	8,860	**10,490**	14,098
Provision for income tax calculated at the statutory rate of 30%	**2,703**	2,658	**3,147**	4,229
Add the tax effect of non-deductible income tax items:				
Administrative and operating expenses	**359**	321	**939**	1,307
Foreign exchange loss (gain)	**3**	(14)	**11**	95
Stock-based (recovery) compensation	**(24)**	(335)	**611**	(47)
TANESCO interest not recognized as interest income (Note 8)	**274**	181	**776**	511
Unrecognized tax asset (Note 8)	**294**	–	**3,731**	–
Other permanent differences	**98**	(63)	**159**	2
	3,707	2,748	**9,374**	6,097

As at 30 September 2016, the provision for doubtful debt from TANESCO has resulted in a US$21.4 million (Q3 2015: US$18.6 million) unrecognized deferred tax asset. If this amount was ultimately not recovered, the Company would also be entitled to a US$12.8 million recovery of Value Added Tax.

As at 30 September 2016, a deferred tax asset of US$2.2 million (Q3 2015: US$2.2 million) in respect of Longastrino Italy exploration and evaluation costs has not been recognized because it is not probable that there will be future profits against which this can be utilized.

The deferred income tax liability includes the following temporary differences:

US$'000	AS AT 30 SEPTEMBER 2016	31 DECEMBER 2015
Differences between tax base and carrying value of property, plant and equipment	**(20,711)**	(18,185)
Tax recoverable from TPDC	**(3,643)**	(3,442)
Provision for doubtful debt	**2,987**	2,987
Deferred Additional Profits Tax	**9,672**	9,394
Unrealized exchange losses and other provisions	**(485)**	(66)
	(12,180)	(9,312)

Tax recoverable

As at 30 September 2016, the Company has a tax recoverable balance of US$4.4 million (Q4 2015: US$4.5 million). This arises from the revenue sharing mechanism within the PSA, which entitles the Company to recover from TPDC, by way of a deduction from TPDC's Profit Gas share, an amount equal to the actual income taxes payable by the Company. The recovery, by deduction from TPDC's share of revenue, is dependent upon payment of income taxes relating to prior period adjustment factors as they are assessed.

	AS AT	
US$'000	**30 SEPTEMBER 2016**	31 DECEMBER 2015
Tax recoverable	**4,371**	4,519

10 ADDITIONAL PROFITS TAX

Under the terms of the PSA, in the event that all costs have been recovered with an annual cash return from the PSA of 25% plus the percentage change in the United States Industrial Goods Producer Price Index ("PPI"), an Additional Profits Tax ("APT") is payable.

The Company provides for deferred APT by forecasting the total APT payable as a proportion of the forecast Profit Gas over the term of the PSA. The effective APT rate of 18.6% (Q3 2015: 20.7%) has been applied to Profit Gas of US$1.8 million for Q3 2016 (Q3 2015: US$3.1 million) and US$5.0 million for the nine months ended 30 September 2016 (nine months ended 30 September 2015: US$9.8 million). Accordingly, US$0.3 million for Q3 2016 (Q3 2015: US$0.6 million) and US$0.9 million for the nine months ended 30 September 2016 (nine months ended 30 September 2015: US$2.0 million) has been netted off revenue.

11 TRADE AND OTHER RECEIVABLES

Current receivables	AS AT	
US$'000	**30 SEPTEMBER 2016**	31 DECEMBER 2015
Trade receivables		
TANESCO	**6,881**	7,831
Songas	**3,447**	2,178
Industrial customers	**6,857**	6,894
	17,185	16,903
Other receivables		
Songas gas plant operations	**6,153**	5,631
Songas well workover program	**14,458**	11,209
Other	**1,566**	1,604
Less provision for doubtful accounts	**(9,956)**	(9,956)
	12,221	8,488
	29,406	25,391

Trade receivables aged analysis

	AS AT 30 SEPTEMBER 2016				
US$'000	Current	>30 <60	>60 <90	>90	Total
TANESCO	**3,353**	**3,528**	**–**	**–**	**6,881**
Songas	**1,133**	**1,089**	**1,225**	**–**	**3,447**
Industrial customers	**3,642**	**2,230**	**331**	**654**	**6,857**
	8,128	**6,847**	**1,556**	**654**	**17,185**

	AS AT 31 DECEMBER 2015				
US$'000	Current	>30 <60	>60 <90	>90	Total
TANESCO	3,972	3,859	–	–	7,831
Songas	1,082	1,096	–	–	2,178
Industrial customers	3,317	1,859	897	821	6,894
	8,371	6,814	897	821	16,903

TANESCO

As at 30 September 2016, TANESCO owed the Company US$81.2 million excluding interest (of which arrears were US$74.4 million) compared to US$69.7 million (including arrears of US$61.9 million) as at 31 December 2015. During Q3 2016, the Company received a total of US$8.6 million (Q3 2015: US$4.0 million) from TANESCO against sales totaling US$10.2 million (Q3 2015: US$10.4 million), for the nine months ended 30 September 2016 the Company received a total of US$18.8 million against sales totaling US$30.3 million (nine months ending 30 September 2015 received a total of US$34.1 million against sales totaling US$45.8 million). Current TANESCO receivables as at 30 September 2016 amounted to US$6.9 million (Q4 2015: US$7.8 million). Since the quarter end, TANESCO has paid the Company US$3.7 million, and as at the date of this report the total TANESCO receivable is US$80.8 million (of which US$74.4 million has been provided for). The amounts owed do not include interest billed to TANESCO.

Prior to 2016, the Company had reached an understanding with TANESCO that it would only continue to supply gas if TANESCO remained reasonably current with payments for current gas deliveries. Excess payments received over and above the current balances would be applied to the arrears balance. During 2016 TANESCO payments have been irregular and insufficient to cover current gas deliveries. In May 2016, TANESCO resumed weekly payments.

Management has reviewed the current position with TANESCO and has concluded that the current policy to reclassify all amounts receivable from TANESCO in excess of 60 days, and in arrears, as a long-term receivable is still appropriate. For the nine months ended 30 September 2016 the Company has classified US$12.4 million, the arrears in excess of 60 days, as a long-term receivable and has recorded a full provision against this (see Note 8). The current total provision is US$74.4 million (Q4 2015: US$61.9 million).

Long-term receivables

	AS AT	
US$'000	**30 SEPTEMBER 2016**	31 DECEMBER 2015
TANESCO receivable	**74,361**	61,922
Provision for doubtful debts	**(74,361)**	(61,922)
Net TANESCO receivable	**–**	–
VAT bond	**341**	332
Lease deposit	**221**	252
Long-term receivables	**562**	584

Songas

As at 30 September 2016, Songas owed the Company US$24.1 million (Q4 2015: US$19.0 million), while the Company owed Songas US$1.3 million (Q4 2015: US$2.6 million); there was no contractual right to offset these amounts. Amounts due to Songas primarily relate to pipeline tariff charges of US$1.0 million (Q4 2015: US$1.1 million), whereas the amounts due to the Company are mainly for capital expenditures of US$14.4 million (Q4 2015: US$11.2 million), sales of gas of US$3.4 million (Q4 2015: US$2.2 million) and for the operation of the gas plant of US$6.2 million (Q4 2015: US$5.6 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis on a "no profit, no loss" basis.

As at 30 September 2016, the net amount owed by Songas to the Company was US$22.7 million (Q4 2015: US$16.4 million). The Company considers the doubtful debt provision of US$9.8 million to be at an appropriate level recognizing the pending settlement of the remaining overdue operatorship charges and the Songas share of the well workover costs. Any significant amounts not agreed to will be pursued through the mechanisms provided in the agreements with Songas.

All amounts due to and from Songas have been summarized in the net Songas balance (see Note 13).

12

PROPERTY, PLANT AND EQUIPMENT

US$'000	Oil and natural gas interests	Leasehold improvements	Computer equipment	Vehicles	Fixtures & fittings	Total
Costs						
As at 1 January 2016	178,808	699	1,341	297	1,125	182,270
Additions	16,689	-	21	83	-	16,793
As at 30 September 2016	**195,497**	**699**	**1,362**	**380**	**1,125**	**199,063**
Accumulated depletion and depreciation						
As at 1 January 2016	75,389	345	1,168	168	926	77,996
Depletion and depreciation	6,822	131	104	60	177	7,294
As at 30 September 2016	**82,211**	**476**	**1,272**	**228**	**1,103**	**85,290**
Net book values						
As at 30 September 2016	**113,286**	**223**	**90**	**152**	**22**	**113,773**
As at 31 December 2015	103,419	354	173	129	199	104,274

In determining the depletion charge, it is estimated that future development costs of US$87.1 million will be required to bring the total proved reserves to production. The Company recorded depreciation of US$0.2 million in Q3 2016 (Q3 2015: US$0.3 million) and US$0.5 million in the nine months ended 30 September 2016 (nine months ended 30 September 2015: US$0.5 million) in general and administrative expenses.

13

TRADE AND OTHER PAYABLES

US$'000	AS AT 30 SEPTEMBER 2016	31 DECEMBER 2015
Songas [1]	**969**	1,071
Other trade payables	**2,535**	11,234
Trade payables	**3,504**	12,305
TPDC share of Profit Gas	**28,542**	28,208
Deferred income	**667**	667
Accrued liabilities	**5,769**	8,351
	38,482	49,531

(1) A summary of all Songas balances is presented below, including the opening position, movements during the year and details of post period-end settlements made in cash by the Company and by Songas (see Note 11).

US$'000	1 January 2016	Year to date transactions	Gross balance 30 September 2016	Post quarter end payments and receipts	Outstanding as at the date of this report
Pipeline tariff – payable	(1,071)	102	**(969)**	969	–
Gas sales – receivable	2,178	1,269	**3,447**	(2,312)	1,135
Gas plant operation receivable	5,631	522	**6,153**	(780)	5,373
Workover program	11,209	3,249	**14,458**	–	14,458
Other payable	(1,546)	1,168	**(378)**	–	(378)
Net balances	16,401	6,310	**22,711**	(2,123)	20,588

14 LONG-TERM LOAN

On 29 October 2015, the Company entered into a loan agreement ("Loan") with the International Finance Corporation ("IFC"), a member of the World Bank Group, for a US$60 million investment in the Company's operating subsidiary, PanAfrican Energy Tanzania Limited ("PAET").

The term of the Loan is ten years, with no repayment of principal for the first seven years, followed by a three-year amortization period. The Company may voluntarily prepay all or part of the Loan but must simultaneously pay any accrued base interest costs related to the principal amount being prepaid. If any portion of the Loan is prepaid prior to the fourth anniversary of the first drawdown, the Company would be required to pay the accrued base interest as if the prepaid portion of the Loan had remained outstanding for the full four years. The Loan is an unsecured subordinated obligation of PAET and is guaranteed by the Company to a maximum of US$30 million. The guarantee may only be called upon by IFC at maturity in 2025 and, subject to IFC approval and receipt of all required regulatory approvals, the Company may issue shares in fulfillment of all or part of the guarantee obligation in 2025.

Base interest on the Loan is payable quarterly at 10% per annum on a 'pay-if-you-can-basis' using a formula to calculate the net cash available for such payments as at any given interest payment date. To date, all interest incurred has been paid. In addition, an annual variable participatory interest equating to 7% of the cash flow of PAET net of capital expenditures is payable in respect of any given year, commencing with 2016. Such participatory interest will continue until 15 October 2026 regardless whether the Loan is repaid prior to its contractual maturity date. No provision has been made for the nine months ended 30 September 2016 as the projection of current cash flow less capital expenditures for 2016 is a negative amount. Dividends and distributions from PAET to the Company are restricted at any time that any amounts of unpaid interest, principal or participating interest are outstanding.

The Company has drawn the US$60 million Loan facility in full, with an initial drawdown of US$20 million on 14 December 2015 followed by an additional draw down of US$40 million on 9 February 2016.

	AS AT	
US$'000	**30 SEPTEMBER 2016**	31 DECEMBER 2015
Total IFC facility	**60,000**	60,000
Loan drawdown	**60,000**	20,000
Financing costs	**(1,602)**	(1,401)
	58,398	18,599

15 CAPITAL STOCK

Authorised

50,000,000 Class A common shares	No par value
100,000,000 Class B subordinate voting shares	No par value
100,000,000 First preference shares	No par value

The Class A and Class B shares rank pari passu in respect of dividends and repayment of capital in the event of winding-up. Class A shares carry twenty (20) votes per share and Class B shares carry one vote per share. The Class A shares are convertible at the option of the holder at any time into Class B shares on a one-for-one basis. The Class B shares are convertible into Class A shares on a one-for-one basis in the event that a take-over bid is made to purchase Class A shares which must, by reason of a stock exchange or legal requirements, be made to all or substantially all of the holders of Class A shares and which is not concurrently made to holders of Class B shares..

Changes in the capital stock of the Company were as follows:

	2016		
Number of shares	**Authorised** *(000)*	**Issued** *(000)*	**Amount** *(US$'000)*
Class A			
As at 1 January 2016 and 30 September 2016	**50,000**	**1,751**	**983**
Class B			
As at 1 January 2016 and 30 September 2016	**100,000**	**33,106**	**84,505**
First preference			
As at 1 January 2016 and 30 September 2016	100,000	–	–
Total Class A, Class B and first preference	**250,000**	**34,857**	**85,488**

All of the issued capital stock is fully paid.

Stock Appreciation Rights ("SARs")	**SARs** *(000)*	**Exercise Price** *(CDN$)*
Outstanding as at 1 January 2016	3,100	2.12 to 3.25
Exercised	(360)	2.30 to 2.70
Forfeited	(90)	2.30
Outstanding as at 30 September 2016	**2,650**	**2.12 to 3.25**

The weighted average remaining life and weighted average exercise prices of SARs at 30 September 2016 were as follows:

Exercise Price *(CDN$)*	Number outstanding as at 30 September 2016 *(000)*	Weighted average remaining contractual life *(years)*	Number exercisable as at 30 September 2016 *(000)*	Weighted average exercise price *(CDN$)*
2.12 to 2.30	1,730	2.19	752	2.27
2.35 to 2.70	430	1.12	430	2.43
3.02 to 3.25	490	3.95	80	3.06
2.12 to 3.25	**2,650**	**2.36**	**1,262**	**2.44**

Restricted Stock Units ("RSUs")	RSUs *(000)*	Exercise Price *(CDN$)*
Outstanding as at 1 January 2016	-	-
Granted (i)	386	0.001
Outstanding as at 30 September 2016	**386**	**0.001**

(i) A total of 386,420 RSUs were granted during the nine months ended 30 September 2016 and remain outstanding at 30 September 2016. The newly granted RSUs vested on the date of grant and have an exercise price of CDN$ .001 and have a five-year term. None of the RSUs were granted in Q3 2016.

As SARs and RSUs are settled in cash, they are re-valued at each reporting date using the Black-Scholes option pricing model with the resulting liability being recognized in trade and other payables. In the valuation of stock appreciation rights and restricted stock units at the reporting date, the following assumptions have been made: a risk free rate of interest of 0.62%, stock volatility of 47.4% to 52.7%; 0% dividend yield; 5% forfeiture; a closing stock price of CDN$3.41 per share.

	AS AT	
US$'000	**30 SEPTEMBER 2016**	30 DECEMBER 2015
SARs	**2,263**	1,572
RSUs	**1,006**	-
	3,269	1,572

As at 30 September2016, a total accrued liability of US$3.3 million (Q4 2015: US$1.6 million) has been recognized in relation to SARs and RSUs which is included in other payables. The Company recognized a credit of US$0.1 million in Q3 2016 in general and administrative expenses.

The credit for the quarter was a result of the reduction in volatility and the reduction in the weighted average contractual life. The credit associated with the forfeiture of 90,000 SARs being offset by the value associated with the vesting of the remaining SARs. The closing share price at the end of Q3 2016 was CDN$3.41 compared to CDN$3.40 at the end of Q2 2016.

16

EARNINGS PER SHARE

	AS AT	
('000)	**30 SEPTEMBER 2016**	30 SEPTEMBER 2015
Outstanding shares		
Weighted average number of Class A and Class B shares	**34,857**	34,889
Weighted average diluted number of Class A and Class B shares	**34,857**	34,889

The calculation of basic and diluted income per share is based on a net income for Q3 2016 of US$5.3 million (Q3 2015: US$6.1 million) and a weighted average number of Class A and Class B shares outstanding during the period of 34,856,432 (Q3 2015: 34,867,358). The calculation of basic and diluted income per share for nine months ended 30 September 2016 is based on net income of US$1.1 million (nine months ended 30 September 2015: US$8.0 million) and a weighted average number of Class A and Class B shares outstanding during the period of 34,856,432 (nine months ended 30 September 2015: 34,889,243).

17
RELATED PARTY TRANSACTIONS

One of the non-executive Directors is counsel with a law firm that provides legal advice to the Company and its subsidiaries. During Q3 2016, the Company incurred US$ nil (Q3 2015: US$0.2 million) and US$0.1 million for the nine months ended 30 September 2016 (nine months ended 30 September 2015: US$0.4 million) to this firm for services provided.

One officer, acting as an Executive Vice-President, provided services to the Company through a consulting agreement with a personnel services company. During the quarter, the Company incurred US$0.1 million (Q3 2015: US$0.1 million) and US$0.2 million for the nine months ended 30 September 2016 (nine months ended 30 September 2015: US$0.3 million) to this firm for services provided.

As at 30 September 2016, the Company has a total of US$ nil (Q3 2015: US$ 0.2 million) recorded in trade and other payables in relation to the related parties.

18
CONTRACTUAL OBLIGATIONS & COMMITTED CAPITAL INVESTMENTS

Protected Gas

Under the terms of the Gas Agreement for the Songo Songo project, in the event that there is a shortfall/insufficiency in Protected Gas as a consequence of the sale of Additional Gas, then the Company is liable to pay the difference between the price of Protected Gas (US$0.55/MMbtu escalated) and the price of an alternative feedstock multiplied by the volumes of Protected Gas up to a maximum of the volume of Additional Gas sold (163.5 Bcf as at 30 September 2016). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the term of the Protected Gas delivery obligation to July 2024.

Terms of the Gas Agreement were modified by the Amended and Restated Gas Agreement ("ARGA") which was initialed by all parties but remains unsigned. The unsigned ARGA provides clarification of the Protected Gas volumes and removes all terms dealing with the security of the Protected Gas and contract terms dealing with the consequences of any insufficiency are dealt with in a new Insufficiency Agreement ("IA"). The IA specifies terms under which Songas may demand cash security in order to keep it whole in the event of a Protected Gas insufficiency. Should the IA be signed, it will govern the basis for determining security. Under the provisional terms of the IA, when it is calculated that funding is required, the Company is required to fund an escrow account at a rate of US$2.00/MMbtu on all Industrial Additional Gas sales out of its and TPDC's share of revenue, and TANESCO shall contribute the same amount on Additional Gas sales to the Power sector. The funds provide security for Songas in the event of an insufficiency of Protected Gas. The Company is actively monitoring the reservoir and, supported by the report of its independent engineers, does not anticipate that a liability will occur in this respect. Although the ARGA remains unsigned, the parties have and continue to conduct themselves, in certain respects, as though the ARGA is in effect.

Re-Rating Agreement

In 2011, the Company signed a re-rating agreement with TANESCO and Songas (the "Re-Rating Agreement") to increase the gas processing capacity to a maximum of 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of the Re-Rating Agreement, the Company effectively pays an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the tariff of US$0.59/ mcf payable to Songas as set by the energy regulator, EWURA. The Re-Rating agreement expired in 2013. Since the formal expiry of the agreement production has continued within the higher rated limit and the Company expects this to continue. There is no certainty that the ability to produce at the higher rating will continue.

Under the terms of this agreement, the Company agreed to indemnify Songas for damage to its facilities caused by the re-rating, up to a maximum of US$15.0 million, but only to the extent that this was not already covered by indemnities from TANESCO's or Songas' insurance policies.

Capital Commitments

Tanzania

There are no contractual commitments for exploration or development drilling or other field development either in the PSA or otherwise agreed which would give rise to significant capital expenditure at Songo Songo. Any significant additional capital expenditure in Tanzania is discretionary.

Given the completion of the Offshore component of Phase I of the Development Program in February 2016, which has improved field deliverability and provides sufficient natural gas production to fill the Songas plant and pipeline to capacity for the greater portion of the remaining life of the production licence, the Company does not expect to commit to further significant capital expenditures until: (i) agreeing commercial terms with TPDC for the supply of gas regarding the sale of incremental gas volumes from Songo Songo; and/or (ii) TANESCO arrears have been substantially reduced, guaranteed or other arrangements for payment made that are satisfactory to the Company; and/or (iii) the establishment of payment guarantees with the World Bank or other multi-lateral lending agencies to secure future receipts under any new sales contracts with Government entities.

When the required conditions are met, and in so doing justify further improving the reliability/capacity of field deliverability, the Company would contemplate undertaking the remaining part of the Phase I Development Program. The additional costs are estimated to be approximately US$30 million.

Italy

The Company has an agreement to farm in on Central Adriatic B.R268.RG Permit offshore Italy. The farm-in commits the Company to fund 30% of an appraisal well up to a maximum of US$11.5 million to earn a 15% working interest in the permit. Thereafter, the Company will fund all future costs relating to the well and the permit in proportion to its participating interest. The Company has also agreed to pay fifteen per cent (15%) of the back costs in relation to the well up to a maximum of US$0.5 million. Changes in Italian environmental legislation in late 2015 have resulted in the development of this permit being postponed and until the development permit is approved, the Company has no further capital commitments in Italy.

19 CONTINGENCIES

Taxation

Area	Period	Tax dispute Reason for dispute	Disputed amount US$'million Principal	Interest	Total
PAYE	2008-10	Pay-As-You-Earn ("PAYE") withholding tax on taxable income of employees on grossed up equivalent of staff salaries, which are contractually stated as net.	0.3	–	0.3[(1)]
WHT	2005-10	WHT on services by non-resident persons performed outside of Tanzania.	1.1	0.7	1.8[(2)]
Income Tax	2008-13	Deductibility of capital expenditures and expenses (2009 and 2012), additional income tax (2008, 2010, 2011 and 2012), tax on repatriated income (2012), foreign exchange rate application (2013 and 2015), and underestimation of tax due (2014).	16.8	10.1	26.9[(3)]
VAT	2008-10	Output VAT on imported services and SSI Operatorship services.	2.7	2.9	5.6[(4)]
			20.9	13.7	34.6

(1) *During 2015, PAET appealed the Tax Revenue Appeals Board ("TRAB") ruling that PAET is liable to pay PAYE on grossed up equivalent of staff salaries. PAET is awaiting appeal date to be set up with the Tax Revenue Appeals Tribunal ("TRAT");*

(2) *2005-2009 (US$1.7 million): During Q2 2016, the Court of Appeal ruled in favor of PAET. During Q3 2016, TRA filed an application for the review of the case and later filed another application for leave to amend its earlier application. PAET is awaiting a review date to be set up by the Court of Appeal;*

2010 (US$0.1 million): TRAB is awaiting a ruling from the review by the Court of Appeal on the 2005-2009 case, which would influence TRAB decision on this matter accordingly;

(3) (a) *2009 (US$1.8 million): During 2015, TRAB ruled against PAET with respect to the deductibility of capital expenditures and other expenses. PAET appealed to TRAT and is awaiting a hearing date to be scheduled;*

(b) *2008, 2010-2011 (US$4.7 million): During 2015, PAET filed objections against TRA assessments with respect to the deductibility of capital expenditures and other expenses as well as underestimation of interest and is awaiting a response. Subsequent to the end of Q3 2016, PAET received an amended assessment with respect to deductibility of capital allowance for 2010, increasing the total assessment by US$0.2 million. PAET is preparing to appeal the assessment at TRAB;*

(c) *2013 (US$0.2 million): During 2015, PAET filed objections to TRA assessment with respect to foreign exchange rate application and is awaiting a response;*

(d) *2012 (US$16.3 million): During Q2 2016, TRA issued two assessments with respect to understated revenue, deductibility of capital expenditures and expenses, and tax on repatriated income. During Q3 2016, PAET filed objections to these assessments and is awaiting a response;*

(e) *2014 (US$3.5 million): During Q3 2016, TRA issued an assessment with respect to underestimation of tax due based on the provisional quarterly payments made by PAET, delayed filings of returns and late payments. PAET filed objections to the assessments and is awaiting a response.*

(f) *2015 (US$0.4 million): During Q3 2016, TRA issued an assessment. PAET filed an objection to the assessment with respect to foreign exchange rate application and is awaiting a response.*

The PSA provides a mechanism by which income tax payable is eligible for recovery through increasing profit share allocations to the Company. The total income tax assessments by the TRA increased by US$0.6 million from Q2 2016.

(4) *In 2014, PAET filed an objection to TRA's claims and is awaiting a response.*

Management, with the advice from its legal counsels, has reviewed the Company's position on the above objections and appeals and has concluded that no provision is required with regard to the above matters.

Corporate Information

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Non-Executive
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Glenn D. Gradeen
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Alan Knowles
Non-Executive
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Calgary, Alberta
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Officers

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