ORCA EXPLORATION GROUP INC.

2017 Q3 INTERIM REPORT

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

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Financial and Operating Highlights

(Expressed in US$'000 unless indicated otherwise)	THREE MONTHS ENDED SEPTEMBER 30 2017	2016	NINE MONTHS ENDED SEPTEMBER 30 2017	2016
OPERATING				
Daily average gas delivered and sold *(MMcfd)*				
Additional Gas	**45.1**	46.6	**42.7**	44.4
Industrial	**14.0**	13.5	**12.7**	12.3
Power	**31.1**	33.1	**30.0**	32.1
Average price *(US$/mcf)*				
Industrial	**7.65**	7.60	**7.69**	7.77
Power	**3.63**	3.57	**3.59**	3.56
Weighted average	**4.38**	4.73	**4.82**	4.72
Operating netback *(US$/mcf)* [1]	**2.94**	3.31	**3.23**	3.23
FINANCIAL				
Revenue	**12,245**	17,744	**42,235**	48,126
Net cash flows from operating activities	**14,447**	6,540	**35,272**	11,623
per share - basic and diluted *(US$)*	**0.41**	0.19	**1.00**	0.33
Net (loss) income	**(34)**	5,302	**2,184**	1,116
per share - basic and diluted *(US$)*	**(0.00)**	0.15	**0.06**	0.03
Cash flows from operations [1]	**4,241**	10,024	**14,777**	25,644
per share - basic and diluted *(US$)*	**0.12**	0.29	**0.42**	0.73
Weighted average of outstanding Class A and Class B shares *('000)*	**34,857**	34,857	**34,857**	34,857
Capital expenditures	**603**	(45)	**1,073**	16,793

	AS AT SEPTEMBER 30, 2017	AS AT DECEMBER 31, 2016
Working capital (including cash)	**71,129**	71,989
Cash	**110,488**	80,895
Long-term loan	**58,501**	58,399
Outstanding shares *('000)*		
Class A	**1,751**	1,751
Class B	**33,106**	33,106
Total shares outstanding	**34,857**	34,857

[1] *The cash flow from operations and operating netback are non-GAAP measures which may not be comparable to other companies. Please refer to the Management Discussion and Analysis ("MD&A") for Information on non-GAAP measures.*

Q3 2017 Operating Highlights

- Revenue for the quarter decreased by 31% to US$12.2 million from US$17.7 million in Q3 2016 and decreased 12% to US$42.2 million over the nine months ended September 30, 2017 compared to US$48.1 million for the comparable prior year period. The decrease is primarily the result of lower Cost Gas allocations which resulted in an increase in Profit Gas attributable to TPDC; a consequence of the decline in the cost pool with the Company having now recovered the cost of the 2015-2016 capital program. Additional Gas deliveries and sales for the quarter averaged 45.1 million standard cubic feet per day ("MMcfd") a decrease of 3% over 46.6 MMcfd in Q3 2016 and decreased 4% to 42.7 MMcfd for the nine months ended September 30, 2017 compared to 44.4 MMcfd for the comparable prior year period. The decrease in Additional Gas volumes for the quarter and the nine months ended September 30, 2017 to the comparable prior year periods is primarily the result of reduced nominations of natural gas volumes by TANESCO. The decrease in volumes were partially offset by a 3% rise in the weighted average price for the quarter to US$4.87/mcf from US$4.73/mcf in Q3 2016 and a 2% rise to US$4.82/mcf for the nine months ended September 30, 2017 from US$4.72/mcf for the comparable prior year period.
- There was a net loss for the quarter of US$0.03 million (US$0.00 loss per share diluted) compared to net income of US$5.3 million in Q3 2016 (US$0.15 per share diluted) and US$2.2 million net income (US$0.06 per share diluted) for the nine months ended September 30, 2017 compared to a net income of US$1.1 million (US$0.03 per share diluted) for the comparable prior year period. The net loss for the quarter was primarily a consequence of a fall in revenue compared to Q3 2016 of US$5.5 million, a US$2.2 million increase in general administrative costs (stock based compensation) being offset by a US$3.0 million decrease in income tax. The interest associated with servicing the IFC loan for the nine months ended September 30, 2017 was US$4.7 million compared to US$4.1 million for the nine months ended September 30, 2016.
- Cash flows from operations for the quarter decreased by 58% to US$4.2 million (US$0.12 per share diluted) from US$10.0 million (US$0.29 per share diluted) in Q3 2016 and decreased by 42% to US$14.8 million (US$0.42 per share diluted) for the nine months ended September 30, 2017 from US$25.6 million (US$0.73 per share diluted) for the comparable prior year period. The decrease for the quarter and the nine months ended September 30, 2017 from the comparable prior year periods is primarily due to the fall in the Company's operating revenue due to lower Cost Gas allocations, the lower Additional Gas volumes and associated Profit Gas entitlement and the increase in costs associated with servicing the IFC loan.
- Net cash flows from operating activities for the quarter increased by 121% to US$14.4 million (US$0.41 per share diluted) in the quarter compared to US$6.5 million (US$0.19 per share diluted) in Q3 2016 and increased by 203% for the nine months ended September 30, 2017 to US$35.3 million (US$1.00 per share diluted) from US$11.6 million (US$0.33 per share diluted) for the comparable prior year period. The increase for the quarter and the nine months ended September 30, 2017 from the comparable prior year periods being primarily the consequence of improved cash receipts from TANESCO since the end of Q3 2016. A total of US$10.8 million was received from TANESCO during the quarter and US$34.4 million for the nine months ended September 30, 2017 compared to US$8.6 million and US$18.8 million for the comparable prior year periods.

- Total capital expenditures for the quarter were US$0.6 million and US$1.1 million for the nine months ended September 2017 compared to US$16.8 million for the comparable prior year period. The capital expenditure in the quarter was for a flow line and platform expenditures related to the SS-12 well. The capital expenditure for the nine months ended September 30, 2017 includes the transfer of US$7.4 million of the Songas share of workover costs originally incurred in 2015 from accounts receivable to property, plant and equipment.
- Working capital as at September 30, 2017 was US$71.1 million compared to US$72.0 million as at December 31, 2016. Working capital figures for the period reflect the decrease in the Songas receivable relating to the Songas workover program which was offset by the increase in cash balances due to the continued receipts from TANESCO. The closing cash at September 30, 2017 was US$110.5 million (December 31, 2016: US$80.9 million).
- As at September 30, 2017 the current receivable from TANESCO was US$ nil (December 31, 2016: US$5.7 million). During the quarter the amounts received from TANESCO were in excess of the revenue recognized for gas sales to TANESCO resulting in a deferred revenue balance of US$7.5 million (December 31, 2016: US$ nil) which is recorded in trade and other payables. The long-term trade receivable at September 30, 2017 was US$74.4 million (provision of US$74.4 million) compared to US$80.1 million (provision of US$74.4 million) as at December 31, 2016. Since the quarter end, TANESCO has paid the Company US$5.1 million. As at the date of this report the TANESCO current receivable balance is US$ nil and the deferred revenue balance is US$12.6 million with no change in the long-term receivable or provision. The amounts do not include the Company's invoices to TANESCO that do not meet the revenue recognition criteria with respect to assurance of collectability.
- Prior to 2016 the Company had reached an understanding with TANESCO that it would continue to supply gas if TANESCO remained reasonably current with payments for gas deliveries. Up to September 30, 2016 the Company recorded revenue from TANESCO based on volumes delivered, however, TANESCO payments were inconsistent and not always in compliance with the agreed understanding resulting in the Company recording provisions for doubtful accounts for amounts outstanding from TANESCO for more than 60 days. Commencing on October 1, 2016, the Company began recording revenues for sales to TANESCO based on the expected amount to be collected, which represents a percentage of the amounts invoiced to TANESCO determined by comparison of TANESCO's historical payment history to the amounts invoiced by the Company over the previous three years. Management believes this approach provides the best estimate of TANESCO's ability to pay and remain reasonably current and as well reflects the economic reality of the situation. The result of recording revenue from TANESCO based on the expected collectability approach was an increase in revenue of US$1.7 million for the quarter (Q3 2016: US$ nil) and a decrease in revenue of US$0.7 million for the nine months ended September 30, 2017 (nine months ended September 30, 2016: US$ nil).
- The increase in revenue for the quarter resulted from an increase in the revenue allocated to PAET for Cost Gas recovery purposes, a direct consequence of the revenue reduction policy deferring the timing of Cost Gas recovery.

ORCA EXPLORATION GROUP INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion & Analysis

THIS MD&A OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2017 SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND NOTES FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TOGETHER WITH THE MD&A FOR THE YEAR ENDED DECEMBER 31, 2016. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON NOVEMBER 14, 2017.

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 Petroleum 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; the Company's estimated spending for the planned Development Program for 2017 and 2018, which includes the tie-in wells to processing facilities, well workovers and installation of a refrigeration unit to the Songas processing facility to ensure the plant can continue to produce gas at the requisite specification and volumes and 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 ("Petroleum Act") and the Finance Act, 2016 on the Company's business in Tanzania; the potential impact of the recently enacted Natural Wealth and Resources (Permanent Sovereignty) Act, 2017, the Natural Wealth and Resources Contracts (Review and Re-Negotiation of Unconscionable Terms) Act, 2017 and The Written Laws (Miscellaneous Amendments) Act, 2017; 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 a new Gas Sales and Purchase Agreement ("GSPA") 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 production volumes will not be restricted; the anticipated effect of the recently approved Second Additional Gas Plan ("AGP2") on the Company's available volumes of Additional Gas for sale; additional Songo Songo field developments contemplated in connection with AGP2; the current and potential production capacity of the Songo Songo field; the Company's ability to access new markets; the Company's ability to produce additional volumes; the Company's ability to access additional processing and transportation capacity; the status of ongoing negotiations with TPDC; the potential increase in sales volumes associated with new gas sales agreements; the Company's ability to locate and bring online additional supply in the future; the Company's expectation that it can expand and maintain the deliverability of gas volumes in excess of the existing Songas infrastructure; 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 appeals on the decisions 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 produced profitably 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, access to resources and infrastructure, 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 Electric Supply Company Limited ("TANESCO"); risk that the potential financing solutions to resolve the TANESCO arrears are not implemented by the Tanzanian government; 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 unfeasible; risk of a lack of access to Songas processing and transportation facilities; risk that the Company may be unable to complete additional field development to support the Songo Songo production profile through the life of the field; risk that the Company may be unable to develop additional supply or increase production values; risks associated with the Company's ability to complete sales of Additional Gas; 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 Petroleum Act and recently enacted legislation, as well as the risk that such legislation will create additional costs and time connected with the Company's business in Tanzania; risks regarding the uncertainty around evolution of Tanzanian legislation; risk that, without extending or replacing the Re-Rating Agreement, the gas being processed through the Songas gas processing plant may be reduced 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 not be successful in appealing claims made by the Tanzanian Revenue Authority ("TRA") and may 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, impact of new local content regulations and variances 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, that the Company will be able to negotiate Additional Gas sales contracts in relation to the recently approved AGP2; the ability of the Company to complete additional developments and increase its production capacity; that the Company and TPDC will agree to the terms of a Gas Sales Agreement; 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 Petroleum Act and new legislation 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 STANDARDIZED AND THEREFORE MAY NOT BE COMPARABLE TO SIMILAR MEASUREMENTS OF OTHER ENTITIES.

- CASH FLOWS FROM OPERATIONS REPRESENTS NET CASH FLOWS FROM OPERATING ACTVITIES LESS INTEREST PAID AND BEFORE CHANGES IN NON-CASH WORKING CAPITAL. THIS IS A PERFORMANCE MEASURE THAT MANAGEMENT BELIEVES REPRESENTS THE COMPANY'S ABILITY TO GENERATE SUFFICIENT CASH FLOW TO FUND CAPITAL EXPENDITURES AND REPAY DEBT.
- 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.
- CASH FLOWS FROM OPERATIONS PER SHARE IS CALCULATED ON THE BASIS OF THE CASH FLOWS FROM OPERATIONS DIVIDED BY THE WEIGHTED AVERAGE NUMBER OF SHARES.
- NET CASH FLOWS FROM OPERATING ACTIVITIES PER SHARE IS CALCULATED AS NET CASH FLOWS FROM OPERATING ACTIVITIES 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 gas agreement (until July 31, 2024). 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. The Company operates the gas processing plant and field on a 'no gain no loss' basis and receives no revenue for the Protected Gas which is delivered to Songas, the Tanzanian Portland Cement Company at Wazo Hill, and to certain villages for electrification.

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 Ministry of Energy ("ME"), previously known as the Ministry of Energy and Minerals ("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 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 the 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 37% of the electrical power generated in Tanzania and 53% 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
PAE PanAfrican Energy Corporation	Mauritius
PanAfrican Energy Tanzania Limited ("PAET")	Jersey
Orca Exploration UK Services Limited	United Kingdom

Results for the three and nine months ended September 30, 2017

SUMMARY

The Company's operating revenue decreased by 33% to US$11.4 million in the quarter ended September 30, 2017 (Q3 2016: US$15.1 million) and by 17% to US$35.0 million for the nine months ended September 30, 2017 (nine months ended September 30, 2016: US$42.3 million). The reduction is a combination of lower Cost Gas allocations and the associated increase in Profit Gas attributable to TPDC and the decline in the cost pool. Revenue for the quarter ended September 30, 2017 decreased by 31% to US$12.2 (Q2 2016: US$17.7 million) and by 12% for the nine months ended September 30, 2017 to US$42.2 million (nine months ended September 30, 2016: US$48.1 million).

The Company's cash flows from operations, which includes the net change in working capital in the period, for the quarter ended September 30, 2017 decreased 58% to US$4.2 million (Q3 2016: US$10.0 million) and by 33% for the nine months ended September 30, 2017 to US$14.8 million (nine months ended September 30, 2016: US$25.6 million). The decrease is primarily a consequence of the fall in the Company's operating revenue due to the change in the TANESCO revenue recognition criteria together with lower sales of Additional Gas volumes and associated Profit Gas entitlement.

The Company's net cash flows from operating activities for the quarter ended September 30, 2017 increased 121% to US$14.4 million (Q3 2016: US$6.5 million) and increased by 204% to US$35.3 million for the nine months ended September 30, 2017 (nine months ended September 30, 2016: US$11.6 million). The increase is primarily a consequence of the continued improved collections from TANESCO since the third quarter of 2016 and increased Industrial Gas sales volumes during 2017.

The Company recorded a net loss of US$0.03 million in the quarter ended September 30, 2017 (Q3 2016: US$5.3 million net income) and a net income of US$2.2 million for the nine months ended September 30, 2017 (nine months ended September 30, 2016: US$1.1 million). The loss in Q3 2017 is a result of the lower revenue for the period. The increase in income for the first nine months of the year over the same prior year period was due to a number of factors: (i) the decrease in revenue being offset by the lower finance expenses; (ii) the decrease in finance expenses relating to the TANESCO debt write-offs; and (iii) the increase in stock based compensation in 2017 being offset by an overall reduction in taxation in the period.

The Company once again exited the quarter in a stable financial position with US$71.1 million in working capital (Q4 2016: US$72.0 million), cash and cash equivalents of US$110.5 million (Q4 2016: US$80.9 million) and long-term debt of US$58.5 million (Q4 2016: US$58.4 million).

OPERATING VOLUMES

The gross gas sales volumes for the quarter were 4,152 MMcf (Q3 2016: 4,285 MMcf) or average daily volumes of 45.1 MMcfd (Q3 2016: 46.6 MMcfd). This represents a decrease in average daily volumes of 3% quarter over quarter. The gross gas volumes sold for the nine months ended September 30, 2017 fell 4% to 11,661 MMcf (42.7 MMcfd) from 12,170 MMcf (44.4 MMcfd) for the nine months ended September 30, 2016.

The decrease in gross gas volumes is primarily a result of reduced consumption of gas volumes by TANESCO. The gross sales volumes were split between the Industrial and Power sectors as detailed in the table below:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2017	2016	**2017**	2016
Gross sales volume *(MMcf)*				
Industrial sector	**1,285**	1,238	**3,484**	3,361
Power sector	**2,867**	3,047	**8,177**	8,809
Total volumes	**4,152**	4,285	**11,661**	12,170
Daily sales volume *(MMcfd)*				
Industrial sector	**14.0**	13.5	**12.7**	12.3
Power sector	**31.1**	33.1	**30.0**	32.1
Total daily sales volume	**45.1**	46.6	**42.7**	44.4

Industrial sector

Industrial sales volume increased by 4% to 1,285 MMcf (14.0 MMcfd) in Q3 2017 from 1,238 MMcf (13.5 MMcfd) in Q3 2016 and increased by 4% to 3,484 MMcf (12.7 MMcfd) for the nine months ended September 30, 2017 from 3,361 MMcf (12.3 MMcfd) for the nine months ended September 30, 2016.

The increased volumes are primarily the result of fewer days of unscheduled maintenance work by a cement plant and additional consumption by new customers connected during the first quarter of 2017.

Power sector

Power sector sales volumes decreased by 6% to 2,867 MMcf (31.1 MMcfd) in Q3 2017 from 3,047 MMcf (33.1 MMcfd) in Q3 2016 and decreased by 7% to 8,177 MMcf (30.0 MMcfd) for the nine months ended September 30, 2017 from 8,809 MMcf (32.1 MMcfd) for the nine months ended September 30, 2016.

The decrease in volumes is primarily a result of reduced consumption of gas volumes by TANESCO.

SONGO SONGO DELIVERABILITY

As at September 30, 2017 the Company had a field productive capacity of approximately 155 MMcfd, with the ability to expand production capacity to 180 MMcfd with the tie-in of well SS-12. Well SS-12 was successfully completed in the first quarter of 2016 but is currently suspended awaiting tie-in. The Company now has significant redundant production capacity with volumes currently limited to 102 MMcfd as only the Songas infrastructure is available to process gas. Well SS-3 is currently suspended and well SS-4 is brought on-line periodically; it is the Company's intention to undertake workovers on both of the wells in the future subject to agreement with Songas, the owner of the wells.

During Q3 2017 the Company, through its subsidiary PAET received approval of the AGP2 from the ME which allows PAET to produce and sell increased volumes of Additional Gas. This can be achieved through the Songas infrastructure and by accessing the NNGIP infrastructure. Wells SS-10, SS-11, and SS-12 have been identified for possible connection to the NNGIP infrastructure subject to finalizing a new gas sales agreement with TPDC for initial incremental gas sales. In order to maintain deliverability through the Songas infrastructure, the Company began work on the installation of the refrigeration unit which is expected to be completed in 2018.

COMMODITY PRICES

The commodity prices achieved in the different sectors during the year are detailed in the table below:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
US$/mcf	**2017**	2016	**2017**	2016
Average sales price				
Industrial sector	**7.65**	7.60	**7.69**	7.77
Power sector	**3.63**	3.57	**3.59**	3.56
Weighted average price	**4.38**	4.73	**4.82**	4.72

Industrial sector

The average gas price achieved during the quarter was US$7.65/mcf, an increase of 1% from US$7.60/mcf in Q3 2016. The average price for the nine months ended September 30, 2017 was US$7.69/mcf a decrease of 1% from US$7.77/mcf for the nine months ended September 30, 2016.

The decline in the average industrial price for the nine months ended September 30, 2017 is the result of re-setting the floor price for a number of industrial customers at the end of the Q3 2016. The increase in the quarter is a consequence of a change in the sales mix compared to Q3 2016.

Power sector

The average sales price to the Power sector was US$3.63/mcf for the quarter and US$3.59 for the nine months ended September 30, 2017, an increase of 2% from US$3.57 mcf in Q3 2016 and an increase of 1% for the nine months ended September 30, 2017. The increase is a consequence of the annual price rise at the start of Q3 2017.

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 from future revenues. Once the Cost Gas has been recovered, TPDC is able to recover any pre-approved marketing costs. Currently, there are no pre-approved marketing costs for TPDC.

The Additional Gas sales volumes for Q3 2017 were above 40 MMcfd and, as a consequence, the Company was entitled to a 40% share of Profit Gas revenue. The Additional Gas sales volumes for Q2 2017 were below 40 MMcfd, as a consequence, the Company was entitled to a 35% share of Profit Gas revenue. The Company was entitled to a 40% share of Profit Gas revenue for Q1 2017, Q3 2017, Q1 2016, Q2 2016 and Q3 2016 as the Additional Gas volumes during these periods were above 40 MMcfd. See "Principal Terms of the Tanzanian PSA and Related Agreements."

The Company was allocated a total of 71% of the Songo Songo net field revenue in the quarter (Q3 2016: 75%). The decrease in allocation of net field revenue was a consequence of the Cost Pool depletion resulting in a 50% increase in profit gas, 60% of which was allocated to TPDC.

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
US$'000	**2017**	2016	**2017**	2016
Gross field revenue	**9,827**	9,405	**26,801**	26,120
Power sector	**8,529**	10,879	**24,046**	31,337
Gross field revenue	**18,356**	20,284	**50,847**	57,457
Tariff for processing plant and pipeline infrastructure	**(2,453)**	(2,545)	**(6,887)**	(7,624)
Net field revenue	**15,903**	17,739	**43,960**	49,833
Analysed as to:				
Company Cost Gas	**8,323**	13,304	**29,366**	37,375
Company Profit Gas	**3,032**	1,774	**5,663**	4,983
Company operating revenue	**11,355**	15,078	**35,029**	42,358
TPDC share of revenue	**4,548**	2,661	**8,931**	7,475
	15,903	17,739	**43,960**	49,833

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

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
US$'000	**2017**	2016	**2017**	2016
Company operating revenue	**11,355**	15,078	**35,029**	42,358
Additional Profits Tax ("APT") charge	**(589)**	(329)	**(1,101)**	(925)
Current income tax adjustment	**1,479**	2,995	**8,307**	6,693
Revenue	**12,245**	17,744	**42,235**	48,126

Company operating revenue for the quarter decreased by 25% to US$11.4 million compared to US$15.1 million in Q3 2016 due to the impact of the change in the TANESCO revenue recognition estimates together with the fall in Profit Gas entitlement, as described above. Company operating revenue for the nine months ended September 30, 2017 decreased by 17% to US$35.0 million (nine months ending September 30, 2016: US$42.4 million) for the same reasons as above.

Prior to 2016 the Company had reached an understanding with TANESCO that it would continue to supply gas if TANESCO remained reasonably current with payments for gas deliveries. Up to September 30, 2016 the Company recorded revenue from TANESCO based on volumes delivered, however, TANESCO payments were inconsistent and not always in compliance with the agreed understanding resulting in the Company recording provisions for doubtful accounts for amounts outstanding from TANESCO for more than 60 days. Commencing on October 1, 2016 the Company began recording revenues for sales to TANESCO based on the expected amount to be collected, which represents a percentage of the amounts invoiced to TANESCO determined by comparison of TANESCO's historical payment history to the amounts invoiced by the Company over the previous three years. Management believes this approach provides the best estimate of TANESCO's ability to pay and remain reasonably current, and as well, reflects the economic reality of the situation. The impact of recording revenue from TANESCO based on the expected collectability approach is as follows:

	THREE MONTHS ENDED SEPTEMBER 30		**NINE MONTHS ENDED SEPTEMBER 30**	
US$'000	**2017**	2016	**2017**	2016
(Increase) decrease in revenue and net income	**(1,668)**	–	**711**	–
Decrease in accounts receivable	**1,865**	–	**5,312**	–
Decrease in liabilities	**3,553**	–	**4,602**	–

The reduction of TANESCO revenue based on the collectability approach has reduced the net field revenue that is available for allocation between PAET and TPDC in accordance with the terms of the PSA. During Q3 2017, the cumulative allocation to PAET of the reduction in net field revenue dropped to 40%, previously it had exceeded 80%. This was the result of an increase in the revenue allocated to PAET for Cost Gas recovery purposes, a direct consequence of the revenue reduction policy deferring the timing of Cost Gas recovery. The net impact has been an increase in the revenue allocated to PAET of US$1.7 million for the quarter and a reduction in the revenue allocated to PAET of US$0.7 million for the nine months ending September 30, 2017.

The percentage used to recognize TANESCO revenue will be reviewed on at least a semi-annual basis, more frequently if circumstances require and if there is a significant difference between the amount of revenue recorded and amounts received, the percentage used to record revenue as well as any existing receivable or deferred revenue balance will be revised accordingly. No change in the percentage was made in Q3 2017.

PROCESSING AND TRANSPORTATION TARIFF

The processing and transportation tariff charge for the quarter was US$2.4 million (Q3 2016: US$2.5 million) and US$6.9 million for the nine months ended September 30, 2017 (nine months ended September 30, 2016: US$7.6 million). The reduction in the tariff on a year to date basis is a consequence of the cessation of additional compensation payments on production volumes in excess of 70 MMcfd in Q2 2016.

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 costs of maintenance for the quarter and year to date were US$0.2 million (Q3 2016: US$0.1 million) and US$0.5 million (nine months ended September 30, 2016: US$0.4 million). Amounts allocated for Additional Gas for the quarter were US$0.1 million (Q3 2016: US$0.06 million) and US$0.3 million for the nine months ended September 30, 2017 (nine months ended September 30, 2016: US$0.2 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 stations (security, insurance and personnel). Ring main distribution costs for the quarter were US$0.6 million (Q3 2016: US$0.7 million) and US$1.8 million for the nine months ended September 30, 2017 (nine months ended September 30, 2016: US$2.1 million). The production and distribution expenses are detailed in the table below:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
US$'000	**2017**	2016	**2017**	2016
Share of well maintenance	**95**	65	**271**	239
Other field and operating costs	**268**	112	**652**	714
	363	177	**923**	953
Ringmain distribution costs	**625**	724	**1,775**	2,052
Production and distribution expenses	**988**	901	**2,698**	3,005

OPERATING NETBACKS

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

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
US$/mcf	**2017**	2016	**2017**	2016
Gas price – Industrial	**7.65**	7.60	**7.69**	7.77
Gas price – Power	**3.63**	3.57	**3.59**	3.56
Weighted average price for gas[1]	**4.87**	4.73	**4.82**	4.72
Tariff	**(0.59)**	(0.59)	**(0.59)**	(0.63)
TPDC share of revenue	**(1.10)**	(0.62)	**(0.77)**	(0.61)
Net selling price	**3.18**	3.52	**3.46**	3.48
Well maintenance and other operating costs	**(0.09)**	(0.04)	**(0.08)**	(0.08)
Ring main distribution costs	**(0.15)**	(0.17)	**(0.15)**	(0.17)
Operating netback	**2.94**	3.31	**3.23**	3.23

[1] *The weighted average price for gas is stated before the decrease in TANESCO revenue due to the modified approach used for revenue recognition purposes and represents the weighted average price of the volumes invoiced and delivered.*

The operating netback in the quarter decreased by 11% to US$2.94/mcf (Q3 2016: US$3.31/mcf). The operating netback was US$3.23/mcf for the nine months ended September 30, 2017 (nine months ended September 30, 2016: US$3.23/mcf). The decrease in the quarter is a consequence of the following factors: i) a 3% increase in the weighted average gas price; and ii) a 76% increase in TPDC share of revenue as a consequence of the depletion of the cost pool during the quarter.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are detailed in the table below:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
US$'000	**2017**	2016	**2017**	2016
Employee and related costs	**1,567**	1,934	**4,774**	5,536
Stock based compensation (recovery)	**2,142**	(80)	**4,543**	2,035
Office costs	**807**	738	**2,392**	2,301
Marketing and business development costs	**250**	87	**565**	280
Reporting, regulatory and corporate	**488**	387	**1,215**	1,297
General and administrative expenses	**5,254**	3,066	**13,489**	11,449

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 and other expenses, general and administrative expenses averaged US$1.0 million (Q3 2016: US$1.0 million) per month during the quarter.

STOCK BASED COMPENSATION

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

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
US$'000	**2017**	2016	**2017**	2016
Stock appreciation rights ("SARs")	**943**	(76)	**1,366**	1,029
Restricted stock units ("RSUs")	**1,199**	(4)	**3,177**	1,006
Stock-based compensation	**2,142**	(80)	**4,543**	2,035

As at September 30, 2017 a total of 2,445,000 SARs, were outstanding compared to 2,430,000 as at December 31, 2016. A total of 25,000 SARs with an exercise price of CDN$3.25 were exercised during the quarter. A total of 325,000 SARs with exercise prices ranging from CDN$2.12 to CDN$2.70 were exercised during Q1 2017 resulting in a total cash payout of US$0.4 million. A total of 365,000 SARSs with an exercise price of CDN$3.87 were granted during Q1 2017. The newly issued SARS have a five-year term and vest equally over the term, the first fifth vesting on the first anniversary of the grant date. No SARs were granted in Q3 2017.

As at September 30, 2017 a total of 1,147,621 RSUs were outstanding compared to 239,361 at December 31, 2016. During Q2 2017 1,143,255 RSUs were issued with an exercise price of CDN$0.001 and a term of five years, of which 143,255 RSUs vested in full on the date of grant and 1,000,000 RSUs vesting equally over one year on a quarterly basis with the first quarter vesting on July 1, 2017. During Q1 2017 259,067 RSUs were issued, the RSUs vested in full on the date of grant have an exercise price of CDN$0.001 and have a five-year term. During the quarter 25,000 RSUs were exercised resulting in a cash payout of US$0.1 million. A total of 259,741 RSUs were exercised during Q2 2017 quarter resulting in a total cash payout of US$0.8 million. During Q1 2017 a total of 209,321 RSUs were exercised resulting in a total cash payout of US$0.6 million.

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 0.5%; stock volatility of 41% to 51%; 0% dividend yield; 5% forfeiture; and a closing price of CDN$4.60 per Class B share.

As at September 30, 2017 a total accrued liability of US$5.8 million (Q4 2016: US$3.2 million) has been recognized in relation to SARS and RSUs. For the quarter, the Company recognized an expense of US$2.1 million (Q3 2016: recovery of US$0.1 million).

NET FINANCE EXPENSE

The movement in net finance expense is detailed in the table below:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
US$'000	**2017**	2016	**2017**	2016
Finance income	**50**	60	**211**	190
Interest expense	**(1,553)**	(1,548)	**(4,656)**	(4,101)
Participatory interest expense	**(1,322)**	–	**(2,778)**	–
Net foreign exchange gain (loss)	**86**	107	**120**	(6)
Indirect tax	**(234)**	–	**(2,793)**	–
Bad debt write off	**–**	(4)	**–**	(4)
Provision for doubtful accounts	**–**	(981)	**–**	(12,439)
Finance expense	**(3,023)**	(2,426)	**(10,107)**	(16,550)
Net finance expense	**(2,973)**	(2,366)	**(9,896)**	(16,360)

The total interest expense and participatory interest relate to the long-term loan with the IFC. The amount of interest expense during the quarter was US$1.6 million (Q3 2016: US$1.5 million) and US$4.7 million for the nine months ending September 30, 2017 (nine months ended September 30, 2016: US$4.1 million). The interest expense is payable quarterly in arrears. The participatory interest is paid annually in arrears and is an accrual equating to 7% of the net cash flows from operating activities net of net cash flows used in investing activities of PAET for the period.

The indirect tax of US$0.3 million for the quarter (Q3 2016: US$ nil) and US$2.8 million for the nine months ending September 30, 2017 (nine months ending September 30, 2016: US$ nil) is for VAT associated with invoices to TANESCO for interest on late payments and invoices under the Take or Pay provisions within the PGSA with TANESCO not recognized in the financial statements due to revenue recognition criteria with respect to assurance of collectability.

The provision for doubtful accounts for the quarter and nine months ending September 30, 2016 relates to overdue TANESCO receivables. Prior to October 1, 2016 any TANESCO receivable which was older than 60 days was provided for and a provision for doubtful accounts was recognized in the financial statements.

TANESCO

As at September 30, 2017 the current receivable from TANESCO was US$ nil (December 31, 2016: US$5.7 million). During the nine months ended September 30, 2017 the amounts received from TANESCO were in excess of the revenue recognized for gas sales to TANESCO resulting in a deferred revenue balance of US$7.5 million (December 31, 2016: US$ nil). The long-term trade receivable at September 30, 2017 was US$74.4 million (provision of US$74.4 million) compared to US$80.1 million (provision of US$74.4 million) as at December 31, 2016. Since the quarter end, TANESCO has paid the Company US$5.1 million. As at the date of this report the current receivable balance is US$ nil and the deferred revenue total is US$12.6 million with no change in the long-term receivable or provision. The amounts owed do not include invoices to TANESCO not meeting the revenue recognition criteria with respect to assurance of collectability as described in Operating Revenue above.

The following table reconciles the total amount receivable from TANESCO including amounts not meeting revenue recognition criteria reconciled to the amounts recorded in the consolidated financial statements:

US$'000	**AS AT SEPTEMBER 30, 2017**	AS AT DECEMBER 31, 2016
Total TANESCO receivable	**111,180**	100,776
Less unrecognized amounts for not meeting revenue recognition criteria:		
Interest charges	**(15,777)**	(10,899)
Invoices issued pursuant to contractual Take or Pay volume requirements	**(21,277)**	(7,842)
Invoiced amounts reduced based on TANESCO's payment history for the previous three years	**(7,237)**	(1,925)
Provision for doubtful accounts	**(74,361)**	(74,361)
TANESCO (deferred revenue) current receivable balance per consolidated financial statements	**(7,472)**	5,749

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 September 30, 2017 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 2016: US$13.0 million). During the quarter, the Company recorded a deferred tax recovery of US$1.1 million (Q3 2016: US$1.0 million expense). The deferred tax has no impact on cash flow until it becomes current, 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 turn depends on 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 effective APT rate of 19.5% (Q3 2016: 18.6%) has been applied to Profit Gas of US$3.0 million for Q3 2017 (Q3 2016: US$1.8 million) and US$5.7 million for the nine months ended September 30, 2017 (nine months ended September 30, 2016: US$5.0 million). Accordingly, US$0.6 million for Q3 2017 (Q3 2016: US$0.3 million) and US$1.1 million for the nine months ended September 30, 2017 (US$0.9 million for the nine months to September 30, 2016) has been netted off revenue. Based on current forecasts, APT payments will commence in 2019.

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
US$'000	**2017**	2016	**2017**	2016
Additional Profits Tax	**589**	329	**1,101**	925

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 December 31, 2016 the proven reserves estimated to be produced over the remaining term of the PSA licence were 347 Bcf (December 31, 2015: 368 Bcf). A depletion expense of US$2.4 million for the quarter (Q3 2016: US$2.4 million) has been recorded in the accounts at an average depletion rate to US$0.57/mcf (Q3 2016: US$0.56/mcf).

CASH FLOW FROM OPERATIONS AND OTHER ACTIVITIES

Cash flows from operations was US$4.2 million for the quarter (Q3 2016: US$10.0 million) and is reconciled to net cash flows from operating activities in the table below:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
US$'000	**2017**	2016	**2017**	2016
Operating activities				
Net (loss) income	**(34)**	5,302	**2,184**	1,116
Non-cash adjustments	**4,275**	4,722	**12,593**	24,528
Cash flows from operations [1]	**4,241**	10,024	**14,777**	25,644
Interest paid	**1,553**	1,548	**4,656**	4,101
Participatory interest	**1,322**	–	**2,778**	–
Change in non-cash working capital	**7,331**	(5,032)	**13,061**	(18,122)
Net cash flows from operating activities [2]	**14,447**	6,540	**35,272**	11,623
Net cash flows used in investing activities [2]	**(641)**	(2,780)	**(1,183)**	(27,616)
Net cash flows used in financing activities [2]	**(1,553)**	(1,518)	**(4,656)**	35,698
Increase (decrease) in cash	**12,253**	2,242	**29,433**	19,705
Effect of change in foreign exchange on cash	**(50)**	31	**160**	577
Net increase (decrease) in cash	**12,203**	2,273	**29,593**	20,282

(1) See non-GAAP measures

(2) See Consolidated Statements of Cash Flows

CAPITAL EXPENDITURES

During the quarter, the Company incurred US$0.6 million in capital expenditures. The expenditure during the quarter is in relation to platform work on the SS-12 well in order to facilitate the future connection to the NNGIP.

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
US$'000	**2017**	2016	**2017**	2016
Geological and geophysical and well drilling	**–**	26	**30**	16,223
Pipelines and infrastructure	**477**	(71)	**820**	466
Other equipment	**126**	–	**223**	104
	603	(45)	**1,073**	16,793
Other [1]	**–**	–	**7,352**	–
	603	(45)	**8,425**	16,793

(1) In Q1 2017, based on agreement with TPDC, the Songas share of workover costs incurred in 2015 were transferred to the cost pool to recover the costs via the PSA cost recovery mechanism. This resulted in US$7.4 million of the Songas receivable being reclassified to plant, property and equipment equal to the proportion not previously provided against. This represents the value which will be recovered via the PSA revenue sharing mechanism.

WORKING CAPITAL

Working capital as at September 30, 2017 was US$71.1 million (December 31, 2016: US$72.0 million) and is detailed in the table below:

US$'000		AS AT SEPTEMBER 30, 2017		AS AT DECEMBER 31, 2016
Cash		**110,488**		80,895
Trade and other receivables		**11,933**		27,638
TANESCO	–		5,749	
Songas	2,480		2,218	
Industrial customers	7,256		7,463	
Songas gas plant operations	6,256		6,601	
Songas well workover program [(1)]	–		14,458	
Other receivables	1,407		1,516	
Provision for doubtful accounts	(5,466)		(10,367)	
Tax recoverable		**3,644**		5,402
Prepayments		**448**		651
		126,513		114,586
Trade and other payables		**47,058**		39,707
TPDC share of Profit Gas [(2)]	27,084		28,319	
Songas	1,888		1,893	
Other trade payables	2,757		3,245	
Accrued liabilities	15,329		6,250	
Tax payable		**854**		2,890
Deferred revenue		**7,472**		-
		55,384		42,597
Working capital [(3)]		**71,129**		71,989

(1) *In Q1 2017 the receivable related to the Songas workovers was adjusted to reflect that the costs had been transferred to the cost pool in order to recover the costs via the PSA cost recovery mechanism based on agreement with TPDC. This resulted in the receivable being adjusted by: i) US$7.4 million being reclassified to plant, property and equipment equal to the proportion not previously provided against. This represents the value which will be recovered via the PSA revenue sharing mechanism; ii) the write-off of the US$4.9 million portion of the Songas receivable that had been previously provided for; and iii) US$2.2 million relating to VAT on the workovers that had already been paid being reclassified as a long-term receivable.*

(2) *The balance of US$27.1 million payable to TPDC is the accrued liability for their share of profit gas delivered to TANESCO which has not been paid for. Settlement of this liability is dependent on receipt of payment from TANESCO for the arrears.*

(3) *Working capital as at September 30, 2017 includes TANESCO deferred revenue of US$7.5 million (December 31, 2016: US$ nil). The deferred revenue being the result of the cumulative cash collected from TANESCO during the nine months ending September 30, 2017 being in excess of the invoiced amounts recognized as revenue during the same period. Correspondingly, as at September 30, 2017 there is no current receivable for TANESCO (December 31, 2016: US$5.7 million).*

Working capital as at September 30, 2017 remained stable from Q4 2016 to the end of Q3 2017. Cash increased to US$110.5 million at September 30, 2017 from US$80.9 million at December 31, 2016 or 37%. The increase is primarily a result of successful collection of revenue from TANESCO and Industrial customers during the quarter. Other significant points are:

- In accordance with rights granted by the Government of Tanzania in the PSA, the Company has the right to move funds to bank accounts outside of Tanzania. As at the date of this report, approximately 93% of the Company's cash is held outside of Tanzania.
- Of the US$7.3 million relating to other trade receivables, US$5.1 million had been received as at the date of this report.

LONG-TERM LOAN

The Company's subsidiary, PAET, entered into a US$60 million financing agreement in 2015 (the "Loan") with the IFC, a member of the World Bank Group.

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 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 the IFC approval 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 base interest which is not to be paid on any interest payment date. Any unpaid interest is added to the principal outstanding and may be paid out before or at the time of principal repayment. To date, all base interest incurred has been paid. In addition, there is an annual variable participatory interest equating to 7% of the net cash flows from operating activities net of net cash flows used in investing activities of PAET in respect of any given year. Such participatory interest will continue until October 15, 2026 regardless whether the Loan is repaid prior to its contract maturity date. An accrual for the participatory interest of US$1.3 million and US$2.8 million for the three and nine months ended September 30, 2017 (comparable periods in 2016: US$ nil) respectively has been made and is included in trade and other payables. Dividends and distributions from PAET to the Company are restricted at any time that any amounts of unpaid interest, principal or participatory interest are outstanding.

SHAREHOLDERS' EQUITY AND OUTSTANDING SHARE DATA

There were 34,856,432 shares outstanding as at September 30, 2017 as detailed in the table below:

Number of shares ('000)	**AS AT SEPTEMBER 30, 2017**	AS AT DECEMBER 31, 2016
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

Number of shares ('000)	**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017**	THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016
Weighted Average		
Class A and Class B shares	**34,857**	34,857
Convertible securities		
Options	**–**	–
Weighted average diluted Class A and Class B shares	**34,857**	34,857

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 to a law firm that provides legal advice to the Company and its subsidiaries. During the quarter, the Company incurred US$0.4 million (Q3 2016: US$ nil) and US$0.3 million for the nine months ended September 30, 2017 (nine months ended September 30, 2016: US$0.4 million) to this firm for services provided.

As at September 30, 2017 the Company has a total of US$0.3 million (Q2 2016: US$ nil) recorded in trade and other payables in relation to the related party.

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 (172.8 Bcf as at September 30, 2017). 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.

Additional Gas Plan 2 ("AGP2")

During Q3 2017 the Company, through its subsidiary PAET received approval of the AGP2 from the MEM which allows PAET to produce and sell increased volumes of Additional Gas. This may be achieved through the Songas infrastructure and by accessing the NNGIP infrastructure. Wells SS-10, SS-11, and SS-12 have been identified for possible connection to the NNGIP infrastructure subject to finalizing a new gas sales agreement with TPDC for initial incremental gas sales.

Re-Rating Agreement

In 2011 the Company signed a re-rating agreement with TANESCO, TPDC and Songas (the "Re-Rating Agreement") which evidenced an increase to the gas processing capacity of the Songas facilities 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 paid additional compensation of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd by issuing credit notes to TANESCO. This was in addition to the tariff of US$0.59/mcf payable to Songas as set by the energy regulator, EWURA.

Although Songas notified the Company in 2014 that the Re-Rating Agreement was terminated, the parties have continued to produce, transport and sell gas volumes in line with the re-rated plant capacity. In May 2016 the Company notified TANESCO and Songas that the additional compensation for sales over 70 MMcfd would no longer be paid effective June 2016. The additional compensation was always intended to be temporary in nature until the expansion of the Songas infrastructure, at which time Songas would apply to EWURA to obtain approval of a new tariff for the processing of volumes over 70 MMcfd. The PGSA provides for passing on to TANESCO any tariff charged to the Company in the event that a new tariff is approved.

The parties are seeking to resolve the status of the re-rating agreement. The processing capacity at the Songas facilities remains unaltered and is fully available for utilization by the Company. This capacity is in addition to the capacity available within the NNGIP infrastructure which PAET intends to utilize now that AGP2 is approved.

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.

The completion of the Offshore component of Phase A of the Development Program in February 2016 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. With the signing of the AGP2, the Company is currently planning to continue with the completion of Phase A of the Development Program that includes installation of a refrigeration unit and possible well workovers. The additional costs are estimated to be approximately US$30 million although it is expected that Songas would pay approximately US$10 million of this amount to cover the costs associated with the workovers of wells SS-3 and SS-4.

At the date of this report, the Company has no significant outstanding contractual commitment, and has no outstanding orders for long lead items related to any capital programs.

Italy

The Company has an agreement to farm in on Central Adriatic B.R268.RG Permit offshore Italy. Changes in Italian environmental legislation in late 2015 have resulted in the development of this permit being postponed until the development plan is approved. As at the date of this report, the Company has no further capital commitments in Italy.

CONTINGENCIES

Recent Legislation

The Petroleum Act, passed in 2015, repealed earlier legislation and 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 Petroleum Act also provides for the creation of an upstream regulator, the Petroleum Upstream Regulatory Authority ("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 Petroleum 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 petroleum operations as well as mid and downstream natural gas activities. The Petroleum 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 TPDC do not extend to mid and downstream petroleum supply operations. The Petroleum Act does provide grandfathering provisions upholding the rights of the Company under their PSA as it was signed prior to passing of the Petroleum Act.

On October 7, 2016 the Government of Tanzania (the "GoT") issued the Petroleum (Natural Gas Pricing) Regulation made under Sections 165 and 258 (I) of the Petroleum Act. Under the Petroleum Act, Article 260 (3) preserves the Company's pre-existing right with TPDC to market and sell Additional Gas together or independently on terms and conditions (including prices) negotiated with third party natural gas customers.

On July 15, 2017 the GoT passed into law the Natural Wealth and Resources (Permanent Sovereignty) Act, 2017, the Written Laws (Miscellaneous Amendments) Act, 2017, and The Natural Wealth and Resources Contracts (Review and Re-Negotiation of Unconscionable Terms) Act, 2017. The first and second of these acts are forward looking and only apply to agreements entered into on or after July 15th, 2017. These acts contain new regulations including but not limited to regulations that all arbitration processes must be heard within Tanzania and restrict the ability to move funds out of Tanzania. The third act is rearward looking and provides the right of the GoT to renegotiate contract clauses that are deemed to have unconscionable terms.

It is still unclear how the provisions of the Petroleum Act and legislation will be enacted and implemented and the Company is uncertain regarding the potential impact on its business in Tanzania.

Cost recovery

In 2011 TPDC conducted an audit of the Cost Pool and 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. Since 2014 there have been no further developments. Under the dispute mechanism outlined in the PSA, TPDC were 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. In the succeeding years since this audit, TPDC has continued to dispute various cost under the cost pool, rejecting costs relating primarily to downstream operations. If the matter is not resolved to the Company's satisfaction, the Company intends to proceed to arbitration via the International Centre for Settlement of Investment Disputes ("ICSID") pursuant to the terms of the PSA.

Taxation

		Tax dispute	Disputed amounts US$' million		
Area	**Period**	**Reason for dispute**	**Principal**	**Interest**	**Total**
Pay As You Earn ("PAYE") tax	2008-10	PAYE tax on grossed-up amounts in staff salaries which are contractually stated as net.	0.3	–	*0.3*[(1)]
Withholding tax ("WHT")	2005-10	WHT on services performed outside of Tanzania by non-resident persons.	1.1	0.7	*1.8*[(2)]
Income Tax	2008-15	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).	29.6	10.0	*39.6*[(3)]
VAT	2008-10	Output VAT on imported services and SSI Operatorship services.	2.7	2.8	*5.5*[(4)]
			33.7	13.5	47.2

(1) In 2015 PAET appealed the Tax Revenue Appeals Board ("TRAB") ruling that PAET is liable to pay PAYE on grossed-up amounts in staff salaries. TRAB waived interest assessed thereon. PAET is awaiting ruling of the Tax Revenue Appeals Tribunal ("TRAT");

(2) (a) 2005-2009 (US$1.7 million): In 2016 TRA filed an application for review of the Court of Appeal (CAT) decision in favour of PAET and later filed another application for leave to amend its earlier application. At the CAT hearing in Q1 2017, TRA withdrew their second application for review. In Q2 2017 the CAT accepted PAET's preliminary objection against the TRA application. On July 28, 2017, TRA filed another application for extension of time, under the certificate of urgency, for their application for CAT leave to review its judgement. Subsequent to quarter end CAT heard PAET's preliminary objection to the TRA application. PAET is now awaiting CAT ruling.

(b) 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's decision on this matter accordingly;

(3) (a) 2009 (US$2.6 million): In 2015 TRAB ruled against PAET with respect to timing of deductibility of capital expenditures and other expenses (US$1.8 million). In Q2 2017 PAET lost an appeal at TRAT and subject to quarter end filed an appeal to CAT and is awaiting a hearing date to be set. In July 2017 TRA sent PAET an amended assessment claiming additional taxes, interest and penalties (US$0.8 million). PAET has objected to the assessment for being time-barred and arbitrary;

(b) 2008 (US$0.6 million): In Q2 2017 TRA issued an adjusted assessment which accepted PAET's position that there was no tax payable for the year. The assessment, however, did not recognize a tax loss carried forward of US$1.8 million (with tax impact of US$0.6 million). PAET has objected to the assessment for being time-barred, incorrect and arbitrary;

(c) 2011 (US$2.0 million): In Q2 2017 PAET filed an appeal at TRAB against a TRA assessment with respect to timing of deductibility of capital expenditures and other expenses (US$1.8 million). PAET is awaiting a TRAB hearing date. PAET is also awaiting a TRA response on an objection of another assessment with respect to alleged late filing penalty and under-estimation of interest (US$0.2 million) raised for the year;

(d) 2010 (US$2.5 million): PAET filed an appeal with TRAB against a TRA assessment with respect to timing of deductibility of capital expenditures and other expenses as well as underestimation of interest and penalty amounts. PAET is awaiting a hearing date to be scheduled;

(e) 2013 (US$6.6 million): In 2016 PAET filed objections to a TRA assessment with respect to foreign exchange rate application and is awaiting a response. During the quarter PAET received TRA assessments for corporation tax (US$0.9 million) which disallowed certain operating costs included in the tax returns and tax on repatriated income (US$5.7 million). PAET has objected to the assessments due to being time-barred and without merit. PAET has also appealed to TRAB the TRA decision not to exercise its administrative powers judiciously to grant the waiver on one-third deposit required to be paid to admit the objection and is awaiting the hearing date to be scheduled;

(f) 2012 (US$15.8 million): In 2016 TRA issued two assessments with respect to understated revenue, timing of deductibility of capital expenditures, expenses and tax on repatriated income. PAET filed an appeal with TRAB against the TRA decision to deny PAET a waiver required for its objection to be admitted but was granted a partial waiver only. PAET has appealed to TRAT for full waiver and is awaiting its ruling. PAET has also filed an application for the stay of execution with TRAT in response to the TRA demand notice for the payment of the deposit ruled by TRAB;

(g) 2014 (US$9.2 million): In 2016 TRA issued an assessment of US$3.3 million 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. PAET has also appealed to TRAB the TRA decision not to exercise its administrative powers judiciously to grant the waiver on one-third deposit required to be paid to admit the objection and is awaiting the hearing date to be scheduled. During the quarter TRA issued two additional assessments for the year for corporation tax of US$3.1 million and tax on repatriated income US$2.8 million. PAET has objected the assessments and is awaiting TRA response;

(h) 2015 (US$0.4 million): In 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;

(4) (a) 2008-2010 (US$5.5 million): In 2016 TRA responded to PAET's objection filed in 2014 and issued an assessment in respect of output VAT on imported services and SSI Operatorship services. PAET filed an appeal with TRAB against the TRA assessment and is awaiting a hearing date to be scheduled;

(b) 2012-2014 (US$ 0.1 million): During the quarter TRA issued an assessment for VAT on other income that PAET had paid. The company has objected the assessment and is awaiting TRA 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.

NEW ACCOUNTING POLICIES

At the date of these financial statements the standards and interpretations listed below were issued but not yet effective. The adoption of these standards may result in future changes to existing accounting policies and disclosures. The Company is currently evaluating the impact that these standards will have on results of operations and financial position.

In May 2014 the IASB issued IFRS 15 "Revenue from Contracts with Customers" which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company has commenced the process of identifying and reviewing sales contracts with customers and the PSA to determine the extent of the impact, if any, that this standard will have on the consolidated financial statements.

In July 2014 the IASB finalized the remaining elements of IFRS 9 "Financial Instruments" which includes new requirements for the classification and measurement of financial assets, amends the impairment model and outlines a new general hedge accounting standard. The mandatory effective date of IFRS 9 is for annual periods on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The Company is evaluating the impact of this standard on the consolidated financial statements and does not anticipate material changes to the valuation of its financial assets.

In January 2016 the IASB issued IFRS 16 "Leases" which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers". The Company is currently identifying contracts that will be identified as leases and evaluating the impact of the standard on the consolidated financial statements.

There are no other standards and interpretations in issue but not yet adopted that are expected to have a material effect on the reported earnings or net assets of the Company.

SUMMARY QUARTERLY RESULTS OUTSTANDING

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

	2017			2016				2015
Figures in US$'000 except where otherwise stated	Q3	Q2	Q1	Q4	Q3	Q3	Q1	Q4
Financials								
Revenue	**12,245**	14,448	15,542	16,533	17,744	14,572	15,810	15,872
Net (loss) income	**(34)**	(622)	2,840	1,048	5,302	1,452	(5,638)	(6,468)
(Loss) income per share – basic and diluted *(US$)*	**(0.00)**	(0.02)	0.08	0.03	0.15	0.04	(0.16)	(0.19)
Cash flows from operations [(1)]	**4,241**	4,610	5,926	6,211	10,024	6,772	8,848	8,391
Cash flows from operations per share – basic and diluted *(US$)*	**0.12**	0.13	0.17	0.18	0.29	0.19	0.25	0.24
Net cash flows from (used in) operating activities	**14,447**	12,038	8,787	8,345	6,540	6,237	(1,154)	5,450
Net cash flows (utilized) per share – basic and diluted *(US$)*	**0.41**	0.35	0.25	0.24	0.19	0.18	(0.03)	0.16
Operating netback *(US$/mcf)* [(1)]	**2.94**	3.44	3.34	3.35	3.31	3.32	3.08	3.03
Working capital	**71,129**	73,854	68,112	71,989	67,635	58,395	56,340	32,521
Long-term loan	**58,501**	58,468	58,399	58,399	58,398	58,368	58,350	18,599
Shareholders' equity	**82,426**	82,407	82,982	80,023	79,152	73,887	72,482	78,153
Capital expenditures								
Geological and geophysical and well drilling	**–**	3	27	32	26	2,558	13,639	23,099
Pipeline and infrastructure	**477**	250	93	99	(71)	181	356	1,382
Other equipment	**126**	97	–	–	–	102	2	59
Other	**–**	–	7,352	–	–	–	–	–
Operating								
Additional Gas sold								
– industrial *(MMcf)*	**1,285**	1,158	1,041	1,226	1,238	1,151	972	1,089
– industrial *(MMcfd)*	**13.97**	12.72	11.57	13.30	13.50	12.60	10.70	11.80
Additional Gas sold								
– power *(MMcf)*	**2,867**	2,437	2,873	2,895	3,047	2,521	3,241	3,483
– power *(MMcfd)*	**31.16**	26.78	31.92	31.50	33.10	27.70	35.60	37.90
Average price per mcf – industrial *(US$)*	**7.65**	7.69	7.75	7.52	7.60	7.64	8.15	7.62
Average price per mcf – power *(US$)*	**3.63**	3.57	3.57	3.57	3.57	3.55	3.55	3.56

(1) *See non-GAAP measures*

PRIOR EIGHT QUARTERS

The Company's revenue for the last eight quarters has been reasonably consistent, fluctuating as sales volumes varied. The decrease in revenue from Q3 2016 to Q2 2017 is the consequence of the Company only recognizing a percentage of the TANESCO invoiced amounts for revenue recognition purposes from Q4 2016 onwards. The fall in revenue from Q4 2016 to Q2 2017 is a consequence of the fall in the volume of gas sold to the industrial sector (primarily a consequence of planned and unplanned maintenance work at a cement plant) and to the power sector due to increased hydro utilization. The fall in revenue from Q2 2017 to Q3 2017 is a combination of a decrease in the current income tax adjustment and the depletion of the cost pool during the quarter.

Changes in net income over the last two years were negatively impacted by the poor payment history of TANESCO. In Q4 2015, Q1 2016, Q2 2016 and Q3 2016 doubtful debt provisions of US$9.8 million, US$8.0 million, US$3.5 million and US$0.9 million respectively were provided against increased TANESCO arrears. Other significant factors affecting the results were:

- Commencing in Q4 2016 the Company recognizes a percentage of the TANESCO invoiced amount for revenue recognition purposes in accordance with the revised estimation procedure which resulted in a net revenue reduction of US$1.6 million in both Q4 2016 and Q1 2017 and a reduction of US$0.8 million in Q2 2017 (see "Operating Revenue").
- The Company recorded an interest expense of US$2.9 million in Q3 2017, US$2.3 million in Q2 2017 and Q1 2017, US$1.5 million in Q2 to Q4 2016 and US$1.0 million in Q1 2016. The increase in 2017 is a result of the participating interest accrued on the IFC loan.
- Changes in stock based compensation due to fluctuations in the Company share price and issuance of new RSUs.
    - Q1 2016: Charge of US$2.8 million as a consequence of an increase in the share price from CDN$2.75 at the end of Q4 2015 to CDN$4.14 at the end of Q1 2016.
    - Q2 2016: Credit of US$0.7 million, share price closed at CDN$3.40.
    - Q3 2016: Credit of US$0.1 million, share price closed at CDN$3.41.
    - Q4 2016: Charge of US$0.6 million, share price closed at CDN$3.82.
    - Q1 2017: Charge of US$0.8 million predominately a consequence of the issuance of 259,067 RSUs which vested fully on the date of grant. The share price closed at CDN$3.85.
    - Q2 2017: Charge of US$1.6 million predominately the consequence of the issuance of 1,143,255 RSUs. The share price closed at CDN$4.01.
    - Q3 2017: Charge of US$2.1 million, share price closed at CDN$4.60.

Differences in cash flows from operations for the last seven quarters were primarily a result of changes in revenue during the periods. The decrease in cash flows from operations in Q4 2016 is a consequence of expensing indirect taxes associated with invoices that have not been recorded in the financial statements because they do not meet the revenue recognition criteria with respect to assurance of collectability. The increase in the cash flows from operations to US$10.0 million in Q3 2016 from US$6.7 million in Q2 2016 is primarily the result of the US$3.3 million increase in revenue over the quarter. The difference in cash flows from operations between Q1 2017 and Q1 2016 is primarily a consequence of US$1.0 million paid in stock based compensation in Q1 2017 (Q1 2016: US$ nil). The fall in cash flows from operations between Q1 2017 to Q2 2017 is a consequence of the decline in revenue due to a decline in gas sales volumes and the associated fall in the Company's share of Profit Gas. The fall in cash flows from operations between Q2 2016 and Q2 2017 is primarily a result of the fall in the Company's operating revenue as a consequence of the change in the TANESCO revenue recognition criteria together with lower Additional Gas volumes and associated Profit Gas entitlement. The decrease in cash flow from operations between Q2 2017 and Q3 2017 is a consequence of several factors, most notably the decrease in the loss between the periods being offset by the non-cash movements associated with stock based compensation and taxation. The decrease in cash flow from operations between Q3 2016 and Q3 2017 is primarily a consequence of the fall in revenue between the periods.

Changes in net cash flows from operating activities between quarters were primarily a result of the timing and amount of payments received from TANESCO.

The increase in working capital from Q4 2015 to Q1 2016 is associated with the second draw down of the IFC Loan of US$40 million in Q1 2016 which offset the decrease in working capital associated with the completion of the workover and drilling program from Q4 2015 to Q1 2016. The progressive increase in working capital from Q1 2016 to Q4 2016 is mainly the result of US$30.0 million in net cash flows from operating activities being offset by US$3.0 million of capital expenditure over the same period given the Company's reduced level of drilling and related activity. Between Q4 2016 and Q3 2017 the level of working capital has remained fairly consistent at an average of US$71.3 million.

Capital expenditure for the last four quarters amounted to US$1.2 million compared to US$41.3 million from Q4 2015 to Q3 2016. The capital additions in Q1 2017 were primarily a result of the transfer of the Songas share of workover costs incurred in 2015 to property, plant and equipment. The workover and drilling program commenced in Q3 2015 and was completed at the end of the second quarter 2016.

The level of Industrial sales volumes increased by 6% in the four quarters ending Q3 2017 to an average of 1,177 MMcf (four quarters ending Q3 2016: 1,113 MMcf) with total Industrial sales volumes for the four quarters ending Q3 2017 increasing to 4,710 MMcf (12.9 MMcfd) compared to 4,450 MMcf (12.2 MMcfd) in the four quarters ending Q3 2016. The increased volumes are primarily the result of fewer days of unscheduled maintenance work by a cement company and consumption by new customers connected during the first half of 2016.

The level of Power sales volumes decreased by 10% in the four quarters ending Q3 2017 to an average of 2,768 MMcf (four quarters ending Q3 2016: 3,073 MMcf) with total Power sector sales volumes for the four quarters ending Q3 2017 decreasing to 11,072 MMcf (30.3 MMcfd) compared to 12,292 MMcf (33.7 MMcfd) in the four quarters ending Q3 2016. 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 loss of sales to other gas suppliers within Tanzania as a result of an order from the GoT forcing the Company to allow other suppliers to connect into the Company's infrastructure.

BUSINESS RISKS

See "Business Risks" in the MD&A for the year ended December 31, 2016 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 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 arranging 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. The Company has been impacted by TANESCO's inability to pay for current deliveries and pay down arrears.

Prior to 2016 the Company had reached an understanding with TANESCO that it would continue to supply gas if TANESCO remained reasonably current with payments for gas deliveries. Up to September 30, 2016 the Company recorded revenue from TANESCO based on volumes delivered, however, TANESCO payments were inconsistent and not always in compliance with the agreed understanding resulting in the Company recording provisions for doubtful accounts for amounts outstanding from TANESCO for more than 60 days. Commencing on October 1, 2016, the Company began recording revenues for sales to TANESCO based on the expected amount to be collected, which represents a percentage of the amounts invoiced to TANESCO determined by comparison of TANESCO's historical payment history to the amounts invoiced by the Company over the previous three years. Management believes this approach provides the best estimate of TANESCO's ability to pay and remain reasonably current and as well reflects the economic reality of the situation.

The result of recording revenue from TANESCO was an increase in revenue of US$1.7 million for the quarter (Q3 2016: US$ nil) and a decrease in revenue of US$0.7 million for the nine months ended September 30, 2017 (nine months ended September 30, 2016: US$ nil) The increase in revenue for the quarter is due to the change in timing of cost recovery as a function of the cumulative reduction in the percentage of net field revenue recognized with regards to TANESCO since October 1, 2016.

The percentage used to recognize TANESCO revenue will be reviewed on at least a semi-annual basis, more frequently if circumstances require and if there is a significant difference between the amount of revenue recorded and amounts received, the percentage used to record revenue as well as any existing receivable or deferred revenue balance will be revised accordingly. No change in the percentage was required for Q3 2017.

At September 30, 2017 the current receivable from TANESCO was US$ nil (December 31, 2016: US$5.7 million). During the quarter the amounts received from TANESCO were in excess of the invoiced amounts recognized for revenue recognition purposes which has resulted in a deferred revenue balance of US$7.5 million (December 31, 2016: US$ nil). The long-term trade receivable at September 30, 2017 was US$74.4 million (provision of US$74.4 million) compared to US$80.1 million (provision of US$74.4 million) as at December 31, 2016. Since the quarter end, TANESCO has paid the Company US$5.1 million. As at the date of this report the current receivable balance is US$ nil and the deferred revenue total is US$12.6 million with no change in the long-term receivable or provision. The amounts owed do not include interest billed and other invoices to TANESCO not meeting the revenue recognition criteria with respect to assurance of collectability.

As at September 30, 2017 Songas owed the Company US$8.7 million (Q4 2016: US$23.3 million), while the Company owed Songas US$2.3 million (Q4 2016: US$2.3 million). In Q1 2017, based on agreement with TPDC, the Songas share of workover costs were transferred to the cost pool to recover the costs via the PSA cost recovery mechanism. This resulted in: i) US$7.4 million of the Songas receivable being reclassified to plant, property and equipment equal to the proportion not previously provided against. This represents the value which will be recovered via the PSA revenue sharing mechanism; ii) the write-off of the US$4.9 million portion of the Songas receivable that had been previously provided for; and iii) US$2.2 million relating to VAT on the workovers that had already been paid being reclassified as a long-term receivable. The Company is continuing to pursue the collection of the US$14.5 million of workover costs from Songas.

Amounts due to Songas primarily relate to pipeline tariff charges of US$1.9 million (Q4 2016: US$1.9 million), whereas the amounts due to the Company are mainly for sales of gas of US$2.5 million (Q4 2016: US$2.2 million) and for the operation of the gas plant of US$6.3 million (Q4 2016: US$6.6 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis.

As at September 30, 2017 the net amount owed by Songas to the Company was US$6.5 million (Q4 2016: US$21.0 million). A doubtful debt provision of US$4.9 million (Q4 2016: US$9.8 million) is necessary recognizing the uncertainty as to the final settlement of overdue operatorship charges and the Songas share of the well workover costs. Any significant amounts not agreed 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

Although 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. With the approval of AGP2, this risk is significantly mitigated however the inability to access Songas plant and processing facilities would materially impair the Company's ability to realize revenue from natural gas sales.

As a result of the Ubungo power 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). Although Songas notified the Company in 2014 that the Re-Rating Agreement was terminated, the parties have continued to produce, transport and sell gas volumes in line with the re-rated plant capacity. Without the Re-Rating Agreement Songas, the owner of the gas processing plant, may require the plant to be operated at its original capacity of 70 MMcfd which would result in a material reduction in the Company's sales volumes. This risk has been significantly mitigated with the recent signing of AGP2 which acknowledges that production from the Songas facility is to continue based on the increased re-rated capacity.

Recent Legislation

The Petroleum Act passed in 2015 repealed earlier legislation and 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 Petroleum Act also provides for the creation of an upstream regulator, the Petroleum Upstream Regulatory Authority ("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 Petroleum 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 petroleum operations as well as mid and downstream natural gas activities. The Petroleum 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 TPDC do not extend to mid and downstream petroleum supply operations. The Act does provide grandfathering provisions upholding the rights of the Company under their PSA as it was signed prior to passing of the Petroleum Act.

On October 7, 2016 the Government of Tanzania (the "GoT") issued the Petroleum (Natural Gas Pricing) Regulation made under Sections 165 and 258 (I) of the Petroleum Act. Under the Petroleum Act, Article 260 (3) preserves the Company's pre-existing right with TPDC to market and sell Additional Gas together or independently on terms and conditions (including prices) negotiated with third party natural gas customers.

On July 15, 2017 the GoT passed into law the Natural Wealth and Resources (Permanent Sovereignty) Act, 2017, the Written Laws (Miscellaneous Amendments) Act, 2017, and The Natural Wealth and Resources Contracts (Review and Re-Negotiation of Unconscionable Terms) Act, 2017. The first and second of these acts are forward looking and only apply to agreements entered into on or after July 15th, 2017. These acts laws contain new regulations including but not limited to regulations that all arbitration processes must be heard within Tanzania and restrict the ability to move funds out of Tanzania. The third act is rearward looking and provides the right of the GoT to renegotiate contracts clauses that are deemed to have unconscionable terms, and restricts the ability to move funds out of Tanzania.

It is still unclear how the provisions of the Petroleum Act and legislation will be interpreted enacted and implemented and the Company is uncertain regarding the potential impact on its business in Tanzania.

Amended and Restated Gas Agreement

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 were to be dealt with in a proposed Insufficiency Agreement ("IA"). As at the date of this report, the ARGA remains an initialed agreement only and the IA is unsigned. In certain respects, the parties thereto are conducting themselves as though the ARGA is in effect, however no formal agreement has been reached on providing additional security 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. Management does not foresee a material risk with the conduct of the Company's business with an unsigned ARGA or IA at this time; in addition, the Company commenced the process of replacing the ARGA with the GSPA between PAET and Songas.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Company's unaudited condensed consolidated interim financial statements requires management to make critical judgements assumptions and estimates 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 December 31, 2016. See "Critical Accounting Estimates and Judgements" in the MD&A for the year ended December 31, 2016 for a complete discussion.

Critical judgements in applying accounting policies:

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. Management performs impairment tests each period on the Company's current and long-term receivables. As a result of TANESCO's inability to fully pay all amounts invoiced by the Company for the past few years, management of the Company has modified its estimation approach for revenue recognition as it relates to TANESCO only. Commencing on October 1, 2016 the Company records a percentage of the amounts invoiced to TANESCO for revenue recognition purposes determined by comparison of TANESCO's historical payment history to the amounts invoiced by the Company over the previous three years. This results in a reduction in revenue recognized from the effective date.

The percentage used to recognize TANESCO revenue will be reviewed on at least a semi-annual basis, more frequently if circumstances require and if there is a significant difference between the amount of revenue recorded and amounts received, the percentage used to record revenue as well as any existing receivable or deferred revenue balance will be revised accordingly.

Key sources of estimation of uncertainty

Financial instrument classification and measurement

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including expected interest rate, share prices, and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuation in this level are those with inputs for the asset or liabilities that are not based on observable market data.

ORCA EXPLORATION GROUP INC.

Q3 2017 FINANCIAL STATEMENTS & NOTES

NOTIFICATION OF CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the condensed unaudited consolidated interim financial statements for the three and nine-month periods ended September 30, 2017.

Condensed Consolidated Interim Statements of (Loss) Income and Comprehensive Income (unaudited)

ORCA EXPLORATION GROUP INC.		THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
US$'000	NOTE	**2017**	2016	**2017**	2016
Revenue	*6, 7*	**12,245**	17,744	**42,235**	48,126
Production and distribution		**(988)**	(901)	**(2,698)**	(3,005)
Net production revenue		**11,257**	16,843	**39,537**	45,121
Operating expenses					
General and administrative		**(5,254)**	(3,066)	**(13,489)**	(11,449)
Depletion		**(2,386)**	(2,402)	**(6,703)**	(6,822)
Operating income		**3,617**	11,375	**19,345**	26,850
Finance income	*8*	**50**	60	**211**	190
Finance expense	*8*	**(3,023)**	(2,426)	**(10,107)**	(16,550)
Income before tax		**644**	9,009	**9,449**	10,490
Income tax – current	*9*	**(1,762)**	(2,703)	**(7,998)**	(6,506)
Income tax – deferred recovery (expense)	*9*	**1,084**	(1,004)	**733**	(2,868)
Net (loss) income		**(34)**	5,302	**2,184**	1,116
Foreign currency translation gain (loss) from foreign operations		**53**	(36)	**219**	(117)
Comprehensive income		**19**	5,266	**2,403**	999
Net (loss) income per share *(US$)*					
Basic and diluted	*16*	**(0.00)**	0.15	**0.06**	0.03

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Financial Position (unaudited)

ORCA EXPLORATION GROUP INC.

US$'000	NOTE	AS AT SEPTEMBER 30, 2017	DECEMBER 31, 2016
Assets			
Current assets			
Cash and cash equivalents		**110,488**	80,895
Trade and other receivables	*11*	**11,933**	27,638
Tax recoverable	*9*	**3,644**	5,402
Prepayments		**448**	651
		126,513	114,586
Non-current assets			
Long-term trade and other receivables	*11*	**2,792**	525
Property, plant and equipment	*12*	**112,892**	111,421
		115,684	111,946
Total Assets		**242,197**	226,532
Equity and liabilities			
Current liabilities			
Trade and other payables	*13*	**47,058**	39,707
Tax payable		**854**	2,890
Deferred revenue	*11*	**7,472**	–
		55,384	42,597
Non-current liabilities			
Deferred income taxes	*9*	**12,245**	12,973
Long-term loan	*14*	**58,501**	58,399
Additional Profits Tax	*10*	**33,641**	32,540
		104,387	103,912
Total Liabilities		**159,771**	146,509
Equity			
Capital stock	*15*	**85,488**	85,488
Contributed surplus		**6,347**	6,347
Accumulated other comprehensive loss		**(162)**	(381)
Accumulated loss		**(9,247)**	(11,431)
		82,426	80,023
Total equity and liabilities		**242,197**	226,532

See accompanying notes to the condensed consolidated interim financial statements.
Contractual obligations and committed capital investment (Note 18); Contingencies (Note 19).
The consolidated financial statements were approved by the Board of Directors on November 14, 2017.

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

ORCA EXPLORATION GROUP INC.

US$'000	NOTE	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
		2017	2016	**2017**	2016
Operating activities					
Net (loss) Income		**(34)**	5,302	**2,184**	1,116
Adjustment for:					
Depletion and depreciation	12	**2,471**	2,560	**6,954**	7,294
Provision for doubtful accounts and indirect tax	8	**234**	981	**2,793**	12,439
Stock based compensation (recovery)	15	**2,022**	(80)	**2,641**	1,697
Deferred income taxes	9	**(1,079)**	1,004	**(728)**	2,868
Additional Profits Tax	10	**589**	329	**1,101**	925
Unrealized gain (loss) on foreign exchange		**38**	(72)	**(168)**	(695)
Interest expense	8	**1,553**	1,548	**4,656**	4,101
Participatory interest expense	8	**1,322**	–	**2,778**	–
Change in non-cash operating working capital		**7,331**	(5,032)	**13,061**	(18,122)
Net cash flows from operating activities		**14,447**	6,540	**35,272**	11,623
Investing activities					
Property, plant and equipment expenditures	12	**(603)**	45	**(1,073)**	(16,793)
Change in non-cash investing working capital		**(38)**	(2,825)	**(110)**	(10,823)
Net cash flows used in investing activities		**(641)**	(2,780)	**(1,183)**	(27,616)
Financing activities					
Interest expense	8	**(1,553)**	(1,548)	**(4,656)**	(4,101)
Increase in long-term loan	14	**–**	30	**–**	39,799
Net cash flows (used in) from financing activities		**(1,553)**	(1,518)	**(4,656)**	35,698
Increase in cash		**12,253**	2,242	**29,433**	19,705
Cash and cash equivalents at the beginning of the period		**98,285**	71,806	**80,895**	53,797
Effect of change in foreign exchange on cash for the period		**(50)**	31	**160**	577
Cash and cash equivalents at the end of the period		**110,488**	74,709	**110,488**	74,709

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

ORCA EXPLORATION GROUP INC. *US$'000*	**Capital stock**	**Contributed surplus**	**Cumulative translation adjustment**	**Accumulated loss**	**Total**
Note	*15*				
Balance as at January 1, 2017	85,488	6,347	(381)	(11,431)	80,023
Foreign currency translation adjustment on foreign operations	–	–	219	–	219
Net income	–	–	–	2,184	2,184
Balance as at september 30, 2017	**85,488**	**6,347**	**(162)**	**(9,247)**	**82,426**

US$'000	Capital stock	Contributed surplus	Cumulative translation adjustment	Accumulated loss	Total
Note	*15*				
Balance as at January 1, 2016	85,488	6,347	(87)	(13,595)	78,153
Foreign currency translation adjustment on foreign operations	–	–	(117)	–	(117)
Net income		–	–	1,116	1,116
Balance as at September 30, 2016	85,488	6,347	(204)	(12,479)	79,152

See accompanying notes to the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

General Information

Orca Exploration Group Inc. (the "Company" or "Orca Exploration") was incorporated on April 28, 2004 under the laws of the British Virgin Islands with registered offices located at PO Box 146, Road Town, Tortola, British Virgin Islands, VG110. The Company produces and sells natural gas to the power and industrial sectors in Tanzania.

The condensed consolidated interim financial statements of the Company as at and for the three and nine months ended September 30, 2017 comprise accounts of the Company and all its wholly owned subsidiaries and were authorized for issue in accordance with a resolution of the directors on November 14, 2017.

1 NATURE OF OPERATIONS

The Company's principal operating asset is an interest held by a subsidiary, PanAfrican Energy Tanzania Limited ("PAET") 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 gas 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. The Company operates the gas processing plant and field on a 'no gain no loss' basis and receives no revenue for the Protected Gas delivered to Songas.

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").

TANESCO is a parastatal organization which is wholly-owned by the Government of Tanzania, with oversight by the Ministry of Energy ("ME"), previously known as 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.

2 BASIS OF PREPARATION

These condensed consolidated interim 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 condensed consolidated interim 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 financial statements for the year ended December 31, 2016.

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 December 31, 2016. There have been no changes in accounting policies for the nine-month period ended September 30, 2017 and the policies have been applied consistently to all periods presented in the condensed consolidated interim financial statements.

New accounting policies

At the date of these financial statements the standards and interpretations listed below were issued but not yet effective. The adoption of these standards may result in future changes to existing accounting policies and disclosures. The Company is currently evaluating the impact that these standards will have on results of operations and financial position.

In May 2014 the IASB issued IFRS 15 "Revenue from Contracts with Customers" which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018 with earlier adoption permitted. The Company has commenced the process of identifying and reviewing sales contracts with customers and the PSA to determine the extent of the impact, if any, that this standard will have on the consolidated financial statements.

In July 2014 the IASB finalized the remaining elements of IFRS 9 "Financial Instruments" which includes new requirements for the classification and measurement of financial assets, amends the impairment model and outlines a new general hedge accounting standard. The mandatory effective date of IFRS 9 is for annual periods on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The Company is evaluating the impact of this standard on the consolidated financial statements and does not anticipate material changes to the valuation of its financial assets.

In January 2016 the IASB issued IFRS 16 "Leases" which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers". The Company is currently identifying contracts that will be identified as leases and evaluating the impact of the standard on the consolidated financial statements.

There are no other standards and interpretations in issue but not yet adopted that are expected to have a material effect on the reported earnings or net assets of the Company.

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 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 December 31, 2016.

See Note 4 of the audited consolidated financial statements for the year ended December 31, 2016 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 contracts with Songas and TANESCO accounted for 45% of the Company's gross field revenue during the quarter. The carrying amount of accounts receivable and the long-term receivable represents the maximum credit exposure. As at September 30, 2017 and December 31, 2016, other than the provisions against the long-term TANESCO receivable, the provision for gas plant operations charges and capital expenditure receivables from Songas and the provision for two industrial customers, the Company does not have an allowance for doubtful accounts against any other receivables nor was it required to write-off any receivables (see Note 11).

Sales to the Industrial sector 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. 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$47.1 million of financial liabilities with regards to trade and other payables of which US$43.1 million is due within one to three months, nil is due within three to six months, and US$4.0 million is due within six to twelve months (see Note 13).

At the end of the quarter approximately 60% of the current liabilities relate to TPDC (see Note 13). 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 proportional to the cash receipts during the quarter. Payments from TANESCO have been irregular and insufficient in recent years and as a result, the quarterly payments to TPDC have been disrupted. A large proportion of the TPDC liability is associated with the long-term TANESCO arrears and payment to TPDC will be made once cash is received for the arrears (see Note 11).

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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 exploration and production assets in Tanzania and had exploration and appraisal interests in Italy.

	THREE MONTHS ENDED SEPTEMBER 30					
			2017			2016
US$'000	**Italy**	**Tanzania**	**Total**	Italy	Tanzania	Total
External revenue	**–**	**12,245**	**12,245**	–	17,744	17,744
Segment (loss) income [1]	**270**	**(304)**	**(34)**	–	5,302	5,302
Other non-cash charges [2]	**–**	**234**	**234**	–	981	981
Depletion & depreciation	**–**	**2,471**	**2,471**	–	2,560	2,560

	NINE MONTHS ENDED SEPTEMBER 30					
			2017			2016
US$'000	**Italy**	**Tanzania**	**Total**	Italy	Tanzania	Total
External revenue	**–**	**42,235**	**42,235**	–	48,126	48,126
Segment (loss) income [1]	**174**	**2,010**	**2,184**	–	1,116	1,116
Other non-cash charges [2]	**–**	**2,793**	**2,793**	–	12,439	12,439
Depletion & depreciation	**–**	**6,954**	**6,954**	–	7,294	7,294

			AS AT SEPTEMBER 30, 2017			AS AT DECEMBER 31, 2016
US$'000	**Italy**	**Tanzania**	**Total**	Italy	Tanzania	Total
Capital additions [3]	**–**	**1,073**	**1,073**	–	16,924	16,924
Total assets	**1,622**	**240,575**	**242,197**	1,477	225,055	226,532
Total liabilities	**74**	**159,697**	**159,771**	102	146,407	146,509

(1) *The income in Italy relates to foreign exchange gains on the euro cash balances held in country.*

(2) *Other non-cash charges for 2017 includes VAT and for 2016, it includes VAT and amounts provided for doubtful accounts receivable from TANESCO expensed directly to the condensed consolidated interim statements of comprehensive income.*

(3) *See Notes 11 and 12*

7 REVENUE

US$'000	THREE MONTHS ENDED SEPTEMBER 30 2017	THREE MONTHS ENDED SEPTEMBER 30 2016	NINE MONTHS ENDED JUNE 30 2017	NINE MONTHS ENDED JUNE 30 2016
Industrial sector	**9,827**	9,405	**26,801**	26,120
Power sector	**8,529**	10,879	**24,046**	31,337
Gross field revenue	**18,356**	20,284	**50,847**	57,457
Processing and transportation tariff	**(2,453)**	(2,545)	**(6,887)**	(7,624)
Net field revenue	**15,903**	17,739	**43,960**	49,833
TPDC share of revenue	**(4,548)**	(2,661)	**(8,931)**	(7,475)
Company operating revenue	**11,355**	15,078	**35,029**	42,358
Additional Profits Tax ("APT") charge	**(589)**	(329)	**(1,101)**	(925)
Current income tax adjustment	**1,479**	2,995	**8,307**	6,693
Revenue	**12,245**	17,744	**42,235**	48,126

Commencing on October 1, 2016 the Company records a percentage of the amounts invoiced to TANESCO for revenue recognition purposes determined by comparison of TANESCO's historical payment history to the amounts invoiced by the Company over the previous three years. Management believes this approach provides the best estimate of TANESCO's ability to pay and remain reasonably current and as well reflects the economic reality of the situation. The impact of recording revenue from TANESCO based on the expected collectability approach is as follows:

US$'million	THREE MONTHS ENDED SEPTEMBER 30 2017	THREE MONTHS ENDED SEPTEMBER 30 2016	NINE MONTHS ENDED SEPTEMBER 30 2017	NINE MONTHS ENDED SEPTEMBER 30 2016
(Increase) decrease in revenue and net income	**(1,668)**	–	**711**	–
Decrease in accounts receivable	**1,865**	–	**5,312**	–
Decrease in liabilities	**3,553**	–	**4,602**	–

The reduction of TANESCO revenue based on the collectability approach has the impact of reducing the net field revenue that is available for allocation between PAET and TPDC in accordance with the terms of the PSA. During Q3 2017, the cumulative allocation of net field revenue to PAET was reduced to 40% where as previously it was over 80%. This was the result of changes in the amounts allocated to PAET for Cost Gas recovery due to the timing of recovery as a consequence of the overall reduction in net field revenue. The net impact has been to increase the revenue allocated to PAET by US$1.7 million for the quarter and to reduce the revenue allocated to PAET by US$0.7 million for the nine months ending September 30, 2017.

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NET FINANCE EXPENSE

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
US$'000	**2017**	2016	**2017**	2016
Finance income	**50**	60	**211**	190
Interest expense	**(1,553)**	(1,548)	**(4,656)**	(4,101)
Participatory interest expense	**(1,322)**	–	**(2,778)**	–
Net foreign exchange gain (loss)	**86**	107	**120**	(6)
Indirect tax	**(234)**	–	**(2,793)**	–
Bad debt write-off	**–**	(4)	**–**	(4)
Provision for doubtful accounts	**–**	(981)	**–**	(12,439)
Finance expense	**(3,023)**	(2,426)	**(10,107)**	(16,550)
Net finance expense	**(2,973)**	(2,366)	**(9,896)**	(16,360)

Interest expense and participatory interest expense relate to the long-term loan with the International Finance Corporation ("IFC"). The amount of interest expense during the quarter was US$1.6 million (Q3 2016: US$1.5 million) and US$4.7 million for the nine months ending September 30, 2017 (nine months ended September 30, 2016: US$4.1 million). The interest expense is payable quarterly in arrears. The participatory interest expense is paid annually in arrears and is an accrual equating to 7% of the net cash flows from operating activities net of net cash flows used in investing activities of PAET for the period (see Note 14).

The indirect tax of US$0.2 million for the quarter (Q3 2016: US$ nil) and US$2.8 million for the nine months ending September 30, 2017 (nine months ending September 30, 2016: US$ nil) is for VAT associated with invoices to TANESCO for interest on late payments and invoices under the Take or Pay provisions within the PGSA with TANESCO not recognized in the financial statements due to revenue recognition criteria with respect to assurance of collectability.

The provision for doubtful accounts for the quarter and nine months ending September 30, 2016 relates to overdue TANESCO receivables. Prior to October 1, 2016 any TANESCO receivable which was older than 60 days was provided for and a provision for doubtful accounts was recognized in the financial statements.

9 INCOME TAXES

The tax charge is as follows:

US$'000	THREE MONTHS ENDED SEPTEMBER 30 **2017**	2016	NINE MONTHS ENDED SEPTEMBER 30 **2017**	2016
Current tax	**1,757**	2,703	**7,993**	6,506
Deferred tax (recovery) expense	**(1,079)**	1,004	**(728)**	2,868
	678	3,707	**7,265**	9,374

Provisional tax payments totaling US$2.9 million for Q3 2017 (Q3 2016: US$1.9 million) and US$8.7 million for the nine months ending September 30, 2017 (nine months ending September 30, 2016: US$5.7 million) were made in respect of the current year.

Tax rate reconciliation

US$'000	THREE MONTHS ENDED SEPTEMBER 30 **2017**	2016	NINE MONTHS ENDED SEPTEMBER 30 **2017**	2016
Income before tax	**644**	9,009	**9,449**	10.490
Provision for income tax calculated at the statutory rate of 30%	**193**	2,703	**2,835**	3,147
Add the tax effect of non-deductible income tax items:				
Administrative and operating expenses	**420**	359	**1,172**	939
Foreign exchange (gain) loss	**(7)**	3	**(35)**	11
Stock-based compensation	**643**	(24)	**1,363**	611
TANESCO interest not recognized as interest income (Note 8)	**389**	274	**1,240**	776
Net unrecognized tax asset	**(657)**	294	**857**	3,731
Other permanent differences	**(303)**	98	**(167)**	159
	678	3,707	**7,265**	9,374

As at September 30, 2017 an unrecognized deferred tax asset of US$25.4 million (Q4 2016: US$23.1 million) is a result of the unrecognized amounts receivable for invoices to TANESCO not meeting revenue recognition criteria. If the amounts for these invoices are ultimately not collected, the Company would also be entitled to recover Value Added Tax ("VAT") of US$17.5 million (Q4 2016: US$13.9 million).

The deferred income tax liability includes the following temporary differences:

US$'000	**AS AT SEPTEMBER 30, 2017**	AS AT DECEMBER 31, 2016
Differences between tax base and carrying value of property, plant and equipment	**(22,165)**	(21,563)
Tax recoverable from TPDC	**(4,460)**	(4,142)
Provision for doubtful accounts	**3,110**	3,110
Deferred APT	**10,285**	9,787
Unrealized exchange losses (gains)/other provisions	**985**	(165)
	(12,245)	(12,973)

Tax recoverable

The Company has a tax recoverable balance of US$3.7 million (Q4 2016: US$5.4 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.

US$'000	**AS AT SEPTEMBER 30, 2017**	AS AT DECEMBER 31, 2016
Tax recoverable	**3,644**	5,402

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 APT is payable.

The Company provides for 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 19.4% (Q3 2016: 18.6%) has been applied to Profit Gas of US$3.0 million for Q3 2017 (Q3 2016: US$1.8 million) and US$5.7 million for the nine months ended September 30, 2017 (nine months ended September 30, 2016: US$5.0 million). Accordingly US$0.6 million for Q3 2017 (Q3 2016: US$0.3 million) and US$1.1 million for the nine months ended September 30, 2017 (US$0.9 million for the nine months to September 30, 2016) has been netted off revenue. Based on current forecasts, APT payments will commence in 2019.

11 TRADE AND OTHER RECEIVABLES

Current receivables

US$'000	**AS AT SEPTEMBER 30, 2017**	AS AT DECEMBER 31, 2016
Trade receivables		
TANESCO	**–**	5,749
Songas	**2,480**	2,218
Industrial customers	**7,256**	7,463
	9,736	15,430
Less provision for doubtful accounts	**(550)**	(550)
	9,186	14,880
Other receivables		
Songas gas plant operations	**6,256**	6,601
Songas well workover program	**–**	14,458
Other	**1,407**	1,516
	7,663	22,575
Less provision for doubtful accounts	**(4,916)**	(9,817)
	2,747	12,758
	11,933	27,638

Trade receivables aged analysis

AS AT SEPTEMBER 30, 2017

US$'000	Current	>30 <60	>60 <90	>90	Total
Songas	1,209	1,271	–	–	**2,480**
Industrial customers	4,106	2,310	113	727	**7,256**
	5,315	3,581	113	727	**9,736**
Less provision for doubtful accounts	–	–	–	(550)	**(550)**
	5,315	3,581	113	177	**9,186**

AS AT DECEMBER 31,2016

US$'000	Current	>30 <60	>60 <90	>90	Total
TANESCO	2,570	2,559	620	–	5,749
Songas	1,190	1,028	–	–	2,218
Industrial customers	2,769	3,679	235	780	7,463
	6,529	7,266	855	780	15,430
Less provision for doubtful accounts	–	–	–	(550)	(550)
	6,529	7,266	855	230	14,880

TANESCO

At September 30, 2017 the current receivable from TANESCO was US$ nil (December 31, 2016: US$5.7 million). During the nine months ended September 30, 2017 the amounts received from TANESCO were in excess of the revenue recognized for gas sales to TANESCO resulting in a deferred revenue balance of US$7.5 million (December 31, 2016: US$ nil).

The long-term trade receivable at September 30, 2017 was US$74.4 million (provision of US$74.4 million) compared to US$80.1 million (provision of US$74.4 million) as at December 31, 2016. Since the quarter end the Company has invoiced TANESCO US$2.4 million and TANESCO has paid the Company US$5.1 million. As at the date of this report the current receivable balance is US$ nil and the deferred revenue total is US$12.6 million with no change in the long-term receivable or provision. The amounts do not include invoices to TANESCO not meeting the revenue recognition criteria with respect to assurance of collectability (see Note 8).

Long-term trade and other receivables *US$'000*	**AS AT SEPTEMBER 30, 2017**	AS AT DECEMBER 31, 2016
TANESCO receivable	**74,361**	74,361
Provision for doubtful accounts	**(74,361)**	(74,361)
Net TANESCO receivable	**–**	–
VAT receivable	**2,563**	318
Lease deposit	**229**	207
Long-term trade and other receivables	**2,792**	525

Songas

As at September 30, 2017 Songas owed the Company US$8.7 million (Q4 2016: US$23.3 million), while the Company owed Songas US$2.3 million (Q4 2016: US$2.3 million). The amounts due to the Company are mainly for sales of gas of US$2.5 million (Q4 2016: US$2.2 million) and for the operation of the gas plant of US$6.2 million (Q4 2016: US$6.6 million) against which the Company has made a provision for doubtful accounts of US$4.9 million (Q4 2016: US$4.9 million) whereas the amounts due to Songas primarily relate to pipeline tariff charges of US$1.9 million (Q4 2016: US$1.9 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis.

In Q1 2017, based on agreement with TPDC, the Songas share of workover costs of US$14.5 million were transferred to the cost pool to recover the costs via the PSA cost recovery mechanism. This resulted in:

i) US$7.4 million of the Songas receivable being reclassified to plant, property and equipment equal to the proportion not previously provided against. This represents the value which will be recovered via the PSA revenue sharing mechanism;

ii) the write-off of the US$4.9 million portion of the Songas receivable that had been previously provided for; and

iii) US$2.2 million relating to VAT on the workovers that had already been paid being reclassified as a long-term receivable. The Company continues to take action to collect the US$14.5 million of workover costs from Songas. Amounts not collected will be pursued through the mechanisms provided in the agreements with Songas.

All amounts due to and from Songas have been summarized in the table below:

US$'000	January 1, 2017	Year to date transactions	**September 30, 2017**	Post quarter end payments and receipts	Outstanding as at the date of this report
Pipeline tariff payable	(1,893)	5	**(1,888)**	1,888	–
Gas sales receivable	2,218	262	**2,480**	(1,273)	1,207
Gas plant operation receivable	6,601	(345)	**6,256**	(734)	5,522
Workover program	14,458	(14,458)	**–**	–	–
Other payable	(378)	–	**(378)**	–	(378)
Net balances	21,006	(14,536)	**6,470**	(119)	6,351

12 PROPERTY, PLANT AND EQUIPMENT

US$'000	Oil and natural gas interests	Leasehold improvements	Computer equipment	Vehicles	Fixtures & fittings	Total
Costs						
As at January 1, 2017	195,624	699	1,366	380	1,125	199,194
Additions [(1)]	8,202	–	154	69	–	8,425
As at September 30, 2017	**203,826**	**699**	**1,520**	**449**	**1,125**	**207,619**
Accumulated depletion and depreciation						
As at January 1, 2017	84,580	626	1,304	249	1,014	87,773
Depletion and depreciation	6,703	73	39	72	67	6,954
As at September 30, 2017	**91,283**	**699**	**1,343**	**321**	**1,081**	**94,727**
Net book values						
As at September 30, 2017	**112,543**	**–**	**177**	**128**	**44**	**112,892**
As at December 31, 2016	111,044	73	62	131	111	111,421

(1) Additions include a transfer of US$7.4 million in relation to the Songas share of workover costs (see Note 11).

In determining the depletion charge, it is estimated that future development costs of US$82.7 million (Q4 2016: US$83.7 million) will be required to bring the total proved reserves to production. The Company recorded depreciation of US$0.1 million in Q3 2017 (Q3 2016: US$0.2 million) and US$0.3 million in the nine months ended September 30, 2017 (nine months ended September 30, 2016: US$0.5 million) which is included in general and administrative expenses.

13

TRADE AND OTHER PAYABLES

US$'000	**AS AT SEPTEMBER 30, 2017**	AS AT DECEMBER 31, 2016
Songas	**1,888**	1,893
Other trade payables	**2,757**	3,245
Trade payables	**4,645**	5,138
TPDC share of Profit Gas	**27,084**	28,319
Accrued liabilities	**15,329**	6,250
	47,058	39,707

14

LONG-TERM LOAN

The Company's subsidiary, PAET, entered into a US$60 million financing agreement in 2015 (the "Loan") with the IFC, a member of the World Bank Group.

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 at its option 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 base interest incurred has been paid. In addition, an annual variable participatory interest of 7% is payable based on the net cash flows from operating activities less net cash flows used in investing activities of PAET in respect of any given year. Such participatory interest will continue until October 15, 2026 regardless whether the Loan is repaid prior to its contractual maturity date. An accrual for the participatory interest of US$1.3 million and US$2.8 million for the three and nine months ended September 30, 2017 (comparable periods in 2016: US$ nil) respectively has been made and is included in trade and other payables (see Note 8). Dividends and distributions from PAET to the Company are restricted at any time that any amounts of unpaid interest, principal or participatory interest are outstanding.

US$'000	**AS AT SEPTEMBER 30, 2017**	AS AT DECEMBER 31, 2016
IFC Loan amount	**60,000**	60,000
Financing costs	**(1,499)**	(1,601)
	58,501	58,399

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 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:

	2017		
Number of shares	Authorised *(000)*	Issued *(000)*	Amount *(US$'000)*
Class A			
As at January 1 and September 30, 2017	**50,000**	**1,751**	**983**
Class B			
As at January 1 and September 30, 2017	**100,000**	**33,106**	**84,505**
First preference			
As at January 1 and September 30, 2017	**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 January 1, 2017	2,430	2.12 to 3.25
Exercised	(160)	2.12 to 2.30
Exercised	(165)	2.35 to 2.70
Exercised	(25)	3.25
Granted	365	3.87
Outstanding as at September 30, 2017	**2,445**	**2.12 to 3.87**

The number of SARs outstanding, the weighted average remaining life and weighted average exercise prices of SARs at September 30, 2017 were as follows:

Exercise Price *(CDN$)*	Number outstanding *(000)*	Weighted average remaining contractual life *(years)*	Number exercisable *(000)*	Weighted average exercise price *(CDN$)*
2.12 to 2.30	1,570	1.21	918	2.27
2.32 to 2.70	100	0.25	100	2.70
3.02 to 3.25	410	3.03	140	3.05
3.87	365	4.27	–	3.87
2.12 to 3.87	**2,445**	**1.93**	**1,158**	**2.66**

Restricted Stock Units ("RSUs")	RSUs *(000)*	Exercise Price *(CDN$)*
Outstanding as at January 1, 2017	239	0.01
Exercised	(493)	0.01
Granted	1,402	0.01
Outstanding as at September 30, 2017	**1,148**	**0.01**

(i) No RSUs were granted during Q3 2017. Of the 1,402,322 RSUs granted in the nine months ended September 30, 2017, 402,322 of these RSUs vested on the date of grant, have an exercise price of CDN$ 0.01 and have a five-year term while 1,000,000 RSUs vest quarterly starting April 1, 2017 over a 1 year period, have an exercise price of CDN$ 0.01 and have a five-year term.

The number outstanding, the weighted average remaining life of RSUs at September 30, 2017 were as follows:

Exercise Price *(CDN$)*	Number outstanding *(000)*	Number exercisable *(000)*	Weighted average remaining contractual life *(years)*
0.01	160	160	3.27
0.01	988	238	4.53
	1,148	**398**	**4.36**

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 0.5%, stock volatility of 41% to 51%; 0% dividend yield; 5% forfeiture; a closing stock price of CDN$4.60 per share.

The amount of accrued liability related to SARs and RSUs were as follows:

US$'000	**AS AT SEPTEMBER 30, 2017**	AS AT DECEMBER 31, 2016
SARs	**3,434**	2,495
RSUs	**2,384**	682
	5,818	3,177

As at September 30, 2017, a total accrued liability of US$5.8 million (Q4 2016: US$3.2 million) has been recognized in relation to SARs and RSUs, which is included in other payables. The Company recognized an expense for the quarter of US$2.1 million (Q3 2016: credit US$0.1 million) and US$4.5 million for the nine months ended September 30, 2017 (nine months ended September 30, 2016: US$2.0 million) in general and administrative expenses.

16 EARNINGS PER SHARE

('000)	THREE AND NINE MONTHS ENDED SEPTEMBER 30 2017	2016
Outstanding shares		
Weighted average number of Class A and Class B shares	34,857	34,857
Weighted average diluted number of Class A and Class B shares	**34,857**	34,857

The calculation of basic loss per share for Q3 2017 is based on a net loss of US$0.03million (Q3 2016: US$5.3 million net income) and a weighted average number of Class A and Class B shares outstanding during the quarter of 34,856,432 (Q3 2016: 34,856,432). The calculation of basic income per share for the nine months ended September 30, 2017 is based on a net income of US$2.2 million (nine months ended September 30, 2016: US$1.1 million) and a weighted average number of Class A and Class B shares outstanding for the nine months ended September 30, 2017 of 34,856,432 (nine months ended September 30, 2016: 34,856,432).

17 RELATED PARTY TRANSACTIONS

One of the non-executive Directors is counsel to a law firm that provides legal advice to the Company and its subsidiaries. During the quarter, the Company incurred US$0.3 million (Q3 2016: US$ nil) and US$0.4 million for the nine months ended September 30, 2017 (nine months ended September 30, 2016: US$0.4 million) to this firm for services provided.

As at September 30, 2017 the Company has a total of US$0.3 million (Q3 2016: US$ nil) 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 ("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 (172.8 Bcf as at September 30, 2017). 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 were to be dealt with in a proposed Insufficiency Agreement ("IA"). As at the date of this report, the ARGA remains an initialed agreement only and the IA is unsigned. In certain respects, the parties thereto are conducting themselves as though the ARGA is in effect however no formal agreement has been reached on providing additional security 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. Management does not foresee a material risk with the conduct of the Company's business with an unsigned ARGA or IA at this time.

Additional Gas Plan 2 ("AGP2")

During Q3 2017 the Company, through its subsidiary PAET received approval of the AGP2 from the ME which allows PAET to produce and sell increased volumes of Additional Gas. This may be achieved through the Songas infrastructure and by accessing the NNGIP infrastructure. Wells SS-10, SS-11, and SS-12 have been identified for possible connection to the NNGIP infrastructure subject to finalizing a new gas sales agreement with TPDC for initial incremental gas sales.

Re-Rating Agreement

In 2011 the Company signed a re-rating agreement with TANESCO, TPDC and Songas (the "Re-Rating Agreement") which evidenced an increase to the gas processing capacity of the Songas facilities 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 paid additional compensation of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd by issuing credit notes to TANESCO. This was in addition to the tariff of US$0.59/mcf payable to Songas as set by the energy regulator, EWURA. In May 2016 the Company notified TANESCO and Songas that the additional compensation would no longer be paid effective June 2016. This additional compensation was always intended to be temporary in nature until such time as Songas applied to EWURA to obtain approval of a new tariff for the processing of volumes over 70 MMcfd. The PGSA provides for passing on to TANESCO any tariff to be charged to the Company.

The parties are seeking to resolve the status of the re-rating agreement. The processing capacity at the Songas facilities remains unaltered and is fully available for utilization by the Company. This capacity is in addition to the capacity available within the NNGIP infrastructure which PAET intends to utilize now that AGP2 has been approved.

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 recovered through 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.

The completion of the Offshore component of Phase A of the Development Program in February 2016 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. With the signing of the AGP2, the Company is currently planning to continue with the completion of Phase A of the Development Program that includes a refrigeration unit and possible well workovers. The additional costs are estimated to be approximately US$30 million although it is expected that Songas will pay approximately US$10 million of this amount to cover the costs associated with the workovers of wells SS-3 and SS-4.

At the date of this report, the Company has no significant outstanding contractual commitments and has no outstanding orders for long lead items related to any capital programs.

Italy

The Company has an agreement to farm in on Central Adriatic B.R268.RG Permit offshore Italy. Changes in Italian environmental legislation in late 2015 have resulted in the development of this permit being postponed until the development plan is approved. As at the date of this report, the Company has no further capital commitments in Italy.

19 CONTINGENCIES

Taxation

		Tax dispute	Disputed amount US$' million		
Area	**Period**	**Reason for dispute**	**Principal**	**Interest**	**Total**
Pay-As-You-Earn ("PAYE") tax	2008-10	PAYE tax on grossed-up amounts in staff salaries which are contractually stated as net.	0.3	–	0.3 [(1)]
Withholding tax ("WHT")	2005-10	WHT on services performed outside of Tanzania by non-resident persons.	1.1	0.7	1.8 [(2)]
Income Tax	2008-15	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).	29.6	10.0	39.6 [(3)]
VAT	2008-10	Output VAT on imported services and SSI Operatorship services.	2.7	2.8	5.5 [(4)]
			33.7	13.5	47.2

(1) In 2015 PAET appealed the Tax Revenue Appeals Board ("TRAB") ruling that PAET is liable to pay PAYE on grossed-up amounts in staff salaries. TRAB waived interest assessed thereon. PAET is awaiting ruling of the Tax Revenue Appeals Tribunal ("TRAT");

(2) (a) 2005-2009 (US$1.7 million): In 2016 TRA filed an application for review of the Court of Appeal (CAT) decision in favour of PAET and later filed another application for leave to amend its earlier application. At the CAT hearing in Q1 2017, TRA withdrew their second application for review. In Q2 2017 the CAT accepted PAET's preliminary objection against the TRA application. On July 28, 2017, TRA filed another Application for extension of time, under the certificate of urgency, for their application for CAT leave to review its judgement. Subsequent to quarter end CAT heard PAET's preliminary objection to the TRA application. PAET is now awaiting CAT ruling;

(b) 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's decision on this matter accordingly;

(3) (a) *2009 (US$2.6 million): In 2015 TRAB ruled against PAET with respect to timing of deductibility of capital expenditures and other expenses (US$1.8 million). In Q2 2017 PAET lost an appeal at TRAT and subject to quarter end filed an appeal to CAT and is awaiting a hearing date to be set. In July 2017 TRA sent PAET an amended assessment claiming additional taxes, interest and penalties (US$0.8 million). PAET has objected to the assessment for being time-barred and arbitrary;*

(b) *2008 (US$0.6 million): In Q2 2017 TRA issued an adjusted assessment which accepted PAET's position that there was no tax payable for the year. The assessment, however, did not recognize a tax loss carried forward of US$1.8 million (with tax impact of US$0.6 million). PAET has objected to the assessment for being time-barred, incorrect and arbitrary;*

(c) *2011 (US$2.0 million): In Q2 2017 PAET filed an appeal at TRAB against a TRA assessment with respect to timing of deductibility of capital expenditures and other expenses (US$1.8 million). PAET is awaiting a TRAB hearing date. PAET is also awaiting a TRA response on an objection of another assessment with respect to alleged late filing penalty and under-estimation of interest (US$0.2 million) raised for the year;*

(d) *2010 (US$2.5 million): PAET filed an appeal with TRAB against a TRA assessment with respect to timing of deductibility of capital expenditures and other expenses as well as underestimation of interest and penalty amounts. PAET is awaiting a hearing date to be scheduled;*

(e) *2013 (US$6.6 million): In 2016 PAET filed objections to a TRA assessment with respect to foreign exchange rate application and is awaiting a response. During the quarter PAET received TRA assessments for corporation tax (US$0.9 million), which disallowed certain operating costs included in the tax returns, and tax on repatriated income (US$5.7 million). PAET has objected to the assessments due to being time-barred and without merit. PAET has also appealed to TRAB the TRA decision not to exercise its administrative powers judiciously to grant the waiver on one-third deposit required to be paid to admit the objection and is awaiting the hearing date to be scheduled;*

(f) *2012 (US$15.8 million): In 2016 TRA issued two assessments with respect to understated revenue, timing of deductibility of capital expenditures, expenses and tax on repatriated income. PAET filed an appeal with TRAB against the TRA decision to deny PAET a waiver required for its objection to be admitted but was granted a partial waiver only. PAET has appealed to TRAT for full waiver and is awaiting its ruling. PAET has also filed an application for the stay of execution with TRAT in response to the TRA demand notice for the payment of the deposit ruled by TRAB;*

(g) *2014 (US$9.2 million): In 2016 TRA issued an assessment of US$3.3 million 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. PAET has also appealed to TRAB the TRA decision not to exercise its administrative powers judiciously to grant the waiver on one-third deposit required to be paid to admit the objection and is awaiting the hearing date to be scheduled. During the quarter TRA issued two additional assessments for the year for corporation tax of US$3.1 million and tax on repatriated income US$2.8 million. PAET has objected the assessments and is awaiting TRA response;*

(h) *2015 (US$0.4 million): In 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;*

(4) (a) *2008-2010 (US$5.5 million): In 2016 TRA responded to PAET's objection filed in 2014 and issued an assessment in respect of output VAT on imported services and SSI Operatorship services. PAET filed an appeal with TRAB against the TRA assessment and is awaiting a hearing date to be scheduled;*

(b) *2012-2014 (US$ 0.1 million): During the quarter TRA issued an assessment for VAT on other income that PAET had paid. PAET has objected the assessment and is awaiting TRA 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

Board of Directors

W. David Lyons
Chairman and
Chief Executive
Officer

Queensway
Gibraltar

David W. Ross
Non-Executive
Director

Calgary, Alberta
Canada

William H. Smith
Non-Executive
Director

Calgary, Alberta
Canada

E. Alan Knowles
Non-Executive
Director

Calgary, Alberta
Canada

Glenn D. Gradeen
Non-Executive
Director

Calgary, Alberta
Canada

Officers

W. David Lyons
Chairman and
Chief Executive Officer

Queensway
Gibraltar

Blaine E. Karst
Chief Financial Officer

Calgary, Alberta
Canada

David K. Roberts
Vice President of Operations

Kansas City, Missouri
United States of America

Operating Office

PanAfrican Energy
Tanzania Limited

Oyster Plaza Building, 5th Floor
Haile Selassie Road
P.O. Box 80139, Dar es Salaam
Tanzania
Tel: + 255 22 2138737
Fax: + 255 22 2138938

Registered Office

Orca Exploration
Group Inc.

P.O. Box 146
Road Town
Tortola
British Virgin Islands, VG110

Investor Relations

W. David Lyons
Chairman and
Chief Executive Officer

WDLyons@orcaexploration.com
www.orcaexploration.com

International Subsidiaries

**PanAfrican Energy
Tanzania Limited**

Oyster Plaza Building, 5th Floor
Haile Selassie Road
P.O. Box 80139, Dar es Salaam
Tanzania
Tel: + 255 22 2138737
Fax: + 255 22 2138938

**PAE PanAfrican
Energy Corporation**

1st Floor
Cnr St George/Chazal Streets
Port Louis
Mauritius
Tel: + 230 207 8888
Fax: + 230 207 8833

Orca Exploration Italy Inc.

**Orca Exploration Italy
Onshore Inc.**

P.O. Box 146,
Road Town
Tortola
British Virgin Islands

Engineering Consultants

McDaniel & Associates
Consultants Ltd.
Calgary, Canada

Auditors

KPMG LLP
Calgary, Canada

Website

orcaexploration.com

Lawyers

Burnet, Duckworth
& Palmer LLP
Calgary, Canada

Transfer Agent

CST Trust Company
Calgary, Alberta, Canada

www.orcaexploration.com