ORCA EXPLORATION GROUP INC.

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 months ended March 31, 2017

Condensed Consolidated Interim Statements of Comprehensive Income (unaudited)

ORCA EXPLORATION GROUP INC.

US$'000	NOTE	THREE MONTHS ENDED MARCH 31 **2017**	2016
Revenue	*6, 7*	**15,542**	15,810
Production and distribution		**(848)**	(1,120)
Net production revenue		**14,694**	14,690
Operating expenses			
General and administrative		**(3,516)**	(6,046)
Depletion		**(2,251)**	(2,362)
Operating income		**8,927**	6,282
Finance income	*8*	**81**	49
Finance expense	*8*	**(2,524)**	(9,019)
Income before tax		**6,484**	(2,688)
Income tax – current	*9*	**(3,403)**	(2,024)
Income tax – deferred	*9*	**(241)**	(926)
Net income (loss)		**2,840**	(5,638)
Foreign currency translation gain (loss) from foreign operations		**119**	(33)
Comprehensive income (loss)		**2,959**	(5,671)
Net income (loss) per share *(US$)*			
Basic and diluted	*16*	**0.08**	(0.16)

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 MARCH 31, 2017	DECEMBER 31, 2016
Assets			
Current assets			
Cash and cash equivalents		**87,821**	80,895
Trade and other receivables	*11*	**14,111**	27,638
Tax recoverable	*9*	**6,324**	5,402
Prepayments		**946**	651
		109,202	114,586
Non-current assets			
Long-term trade and other receivables	*11*	**2,744**	525
Property, plant and equipment	*12*	**116,553**	111,421
		119,297	111,946
Total Assets		**228,499**	226,532
Equity and liabilities			
Current liabilities			
Trade and other payables	*13*	**37,630**	39,707
Tax payable		**3,460**	2,890
		41,090	42,597
Non-current liabilities			
Deferred income taxes	*9*	**13,214**	12,973
Long-term loan	*14*	**58,399**	58,399
Additional Profits Tax	*10*	**32,814**	32,540
		104,427	103,912
Total Liabilities		**145,517**	146,509
Equity			
Capital stock	*15*	**85,488**	85,488
Contributed surplus		**6,347**	6,347
Accumulated other comprehensive loss		**(262)**	(381)
Accumulated loss		**(8,591)**	(11,431)
		82,982	80,023
Total equity and liabilities		**228,499**	226,532

See accompanying notes to the condensed consolidated interim financial statements.
Nature of Operations (Note 1); Contractual obligations and committed capital investment (Note 18); Contingencies (Note 19).
The consolidated financial statements were approved by the Board of Directors on May 23, 2017.

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

ORCA EXPLORATION GROUP INC.		THREE MONTHS ENDED MARCH 31	
US$'000	NOTE	**2017**	2016
Operating activities			
Net Income (loss)		**2,840**	(5,638)
Adjustment for:			
Depletion and depreciation	12	**2,340**	2,508
Provision for doubtful accounts and indirect tax	*8*	**205**	7,986
Stock based compensation	*15*	**(171)**	2,795
Deferred income taxes	*9*	**241**	926
Additional Profits Tax	*10*	**274**	308
Interest expense	*8*	**1,518**	1,005
IFC participatory interest	*8*	**731**	–
Unrealized loss (gain) on foreign exchange		**197**	(37)
Change in non-cash working capital		**612**	(11,007)
Net cash flow from (used in) operating activities		**8,787**	(1,154)
Investing activities			
Property, plant and equipment expenditures	*12*	**(120)**	(13,997)
Change in working capital related to investing activities		**(96)**	(5,065)
Net cash used in investing activities		**(216)**	(19,062)
Financing activities			
Interest paid	*8*	**(1,518)**	(1,005)
Increase in long-term loan	*14*	**–**	39,751
Net cash flow (used in) from financing activities		**(1,518)**	38,746
Increase in cash		**7,053**	18,530
Cash and cash equivalents at the beginning of the period		**80,895**	53,797
Effect of change in foreign exchange on cash for the period		**(127)**	(27)
Cash and cash equivalents at the end of the period		**87,821**	72,300

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Shareholders 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	–	–	119	–	119
Net income	–	–	–	2,840	2,840
Balance as at March 31, 2017	**85,488**	**6,347**	**(262)**	**(8,591)**	**82,982**

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	–	–	(33)	–	(33)
Net loss	–	–	–	(5,638)	(5,638)
Balance as at March 31, 2016	85,488	6,347	(120)	(19,233)	72,482

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 months ended March 31, 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 May 23, 2017.

1 NATURE OF OPERATIONS

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

The PSA defines gas in the Songo Songo field as "Protected Gas" and "Additional Gas". The "Protected Gas" is owned by TPDC and is sold under a 20-year 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.

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

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

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

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

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 three-month period ended March 31, 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 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 the management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended 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 carrying amount of accounts receivable and the long-term receivable represents the maximum credit exposure. As at March 31, 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).

All the Company's production is currently derived in Tanzania. The sales are made to the Power sector and the Industrial sector. In relation to sales to the Power sector, the Company has a contract with Songas for the supply of gas to the Ubungo power plant and a contract with TANESCO to supply approximately 37 MMcfd of gas. The contracts with Songas and TANESCO accounted for 51% of the Company's gross field revenue during the quarter and US$5.2 million of the short and long-term trade receivables net of provision at March 31, 2017.

TANESCO continues to have difficulties paying invoices for current deliveries and reducing amounts in arrears. As a result, management has maintained a provision for doubtful accounts against arrears due from TANESCO in the amount of US$74.4 million as at March 31, 2017 (December 31, 2016: US$74.4 million).

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$37.6 million of financial liabilities with regards to trade and other payables of which US$36.0 million is due within one to three months, nil is due within three to six months, and US$1.6 million is due within six to twelve months (see Note 13). As at March 31, 2017 the Company had a current tax liability of US$3.5 million.

At the end of the quarter approximately 73% 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. Given the difficulties in collecting from TANESCO, the Company has been settling these amounts on a pro rata basis as TANESCO payments are received (see Note 11).

6 SEGMENT INFORMATION

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

	THREE MONTHS ENDED MARCH 31					
			2017			2016
US$'000	**Italy**	**Tanzania**	**Total**	**Italy**	**Tanzania**	**Total**
External revenue	**–**	**15,542**	**15,542**	–	15,810	15,810
Segment income (loss)	**(35)**	**2,805**	**2,840**	(57)	(5,581)	(5,638)
Non-cash charge [(1)]	**–**	**205**	**205**	–	7,986	7,986
Depletion & depreciation	**–**	**2,340**	**2,340**	–	2,508	2,508

	AS AT					
			MARCH 31, 2017			DECEMBER 31, 2016
US$'000	**Italy**	**Tanzania**	**Total**	**Italy**	**Tanzania**	**Total**
Capital additions [(2)]	**–**	**7,472**	**7,472**	–	16,924	16,924
Total assets	**1,481**	**227,018**	**228,499**	1,477	225,055	226,532
Total liabilities	**69**	**145,448**	**145,517**	102	146,407	146,509

(1) Non-cash charge represents indirect taxes expensed for 2017 and amounts provided for doubtful accounts receivable from TANESCO for 2016 expensed directly to the condensed consolidated interim statements of comprehensive income.

(2) See Notes 11 and 12.

7 REVENUE

US$'000	THREE MONTHS ENDED MARCH 31 2017	2016
Industrial sector	**8,068**	7,925
Power sector	**8,354**	11,512
Gross field revenue	**16,422**	19,437
Processing and transportation tariff	**(2,310)**	(2,856)
Field net revenue	**14,112**	16,581
TPDC share of revenue	**(2,117)**	(2,487)
Company operating revenue	**11,995**	14,094
Additional Profits Tax charge	**(274)**	(308)
Current income tax adjustment	**3,821**	2,024
Revenue	**15,542**	15,810

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 MARCH 31 2017	2016
Decrease in revenue	**1,582**	–
Decrease in accounts receivable	**1,905**	–
Decrease in net income	**1,582**	–
Decrease in current liabilities	**323**	–

8 NET FINANCE EXPENSE

	THREE MONTHS ENDED MARCH 31	
US$'000	**2017**	2016
Finance income	**81**	49
Interest expense	**(1,518)**	(1,005)
Participatory interest	**(731)**	–
Net foreign exchange loss	**(70)**	(28)
Indirect tax	**(205)**	–
Provision for doubtful accounts	**–**	(7,986)
Finance expense	**(2,524)**	(9,019)
Net finance expense	**(2,443)**	(8,970)

The total amount of interest paid during the quarter was US$1.5 million (Q1 2016: US$1.0 million). The interest relates to the long-term loan with the International Finance Corporation ("IFC") and is payable quarterly in arrears. The participatory interest paid annually in arrears is an accrual equating to 7% of the net cash flow from operating activities of PAET net of net cash flows used in investing activities for the three months ending March 31, 2017 (see Note 14).

During the quarter the Company invoiced TANESCO US$1.3 million of interest for late payments (Q1 2016: US$0.9 million). The interest income is not recorded in the financial statements because it does not meet the revenue recognition criteria with respect to assurance of collectability. The Company is pursuing collection and amounts will be recognized in earnings when collected.

The US$0.2 million is in relation to indirect tax associated with trade receivables 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 ending March 31, 2016 relates to overdue TANESCO receivables.

9 INCOME TAXES

The tax charge is as follows:

	THREE MONTHS ENDED MARCH 31	
US$'000	**2017**	2016
Current tax	**3,403**	2,024
Deferred tax expense	**241**	926
	3,644	2,950

Provisional tax payments of US$2.9 million was paid during the quarter (Q1 2016: US$1.9 million) in respect of the current year. These are presented as a reduction in tax payable on the statement of financial position.

Tax rate reconciliation	THREE MONTHS ENDED MARCH 31	
US$'000	**2017**	2016
Income (loss) before tax	**6,484**	(2,688)
Provision for income tax calculated at the statutory rate of 30%	**1,945**	(806)
Add the tax effect of non-deductible income tax items:		
Administrative and operating expenses	**348**	242
Foreign exchange loss (gain)	**(21)**	(15)
Stock based compensation	**252**	857
TANESCO interest not recognized as interest income (Note 8)	**343**	244
Unrecognized tax asset	**633**	2,396
Other permanent differences	**144**	33
	3,644	2,950

As at March 31, 2017, the provision for doubtful debt from TANESCO has resulted in a US$23.7 million unrecognized deferred tax asset (Q4 2016: US$23.1 million). If this amount was ultimately not recovered, the Company would also be entitled to a US$14.1 million recovery of Value Added Tax (Q4 2016: US$13.9 million).

The deferred income tax liability includes the following temporary differences:

	AS AT	
US$'000	**MARCH 31, 2017**	DECEMBER 31, 2016
Differences between tax base and carrying value of property, plant and equipment	**(21,740)**	(21,563)
Tax recoverable from TPDC	**(4,563)**	(4,142)
Provision for doubtful debt	**3,110**	3,110
Additional Profits Tax	**9,881**	9,787
Unrealised exchange losses/other provisions	**98**	(165)
	(13,214)	(12,973)

Tax recoverable

The Company has a tax recoverable balance of US$4.6 million (Q4 2016: US$4.5 million). This arises from the revenue sharing mechanism within the PSA, which entitles the Company to recover from TPDC, by way of a deduction from TPDC's Profit Gas share, an amount equal to the actual income taxes payable by the Company. The recovery, by deduction from TPDC's share of revenue, is dependent upon payment of income taxes relating to prior period adjustment factors as they are assessed.

	AS AT	
US$'000	**MARCH 31, 2017**	DECEMBER 31, 2016
Tax recoverable	**6,324**	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 Additional Profits Tax ("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% (Q1 2016: 18.6%) has been applied to Profit Gas of US$1.4 million (Q1 2016: US$1.7 million). Accordingly, US$0.3 million has been netted off revenue for the three months ended March 31, 2017 (Q1 2016: US$0.3 million). There is no forecasted APT payable until 2019.

11 TRADE AND OTHER RECEIVABLES

Current receivables

US$'000	AS AT MARCH 31, 2017	DECEMBER 31, 2016
Trade receivables		
TANESCO	**1,821**	5,749
Songas	**3,366**	2,218
Industrial customers	**6,723**	7,463
	11,910	15,430
Other receivables		
Songas gas plant operations	**6,807**	6,601
Songas well workover programme	**–**	14,458
Other	**860**	1,516
	7,667	22,575
	19,577	38,005
Less provision for doubtful accounts	**(5,466)**	(10,367)
	14,111	27,638

Trade receivables aged analysis

AS AT MARCH 31, 2017

US$'000	Current	>30 <60	>60 <90	>90	Total
TANESCO	1,821	–	–	–	**1,821**
Songas	1,115	1,069	1,182	–	**3,366**
Industrial customers	3,243	1,569	825	1,086	**6,723**
	6,179	2,638	2,007	1,086	**11,910**
Less provision for doubtful accounts	–	–	–	(550)	**(550)**
	6,179	2,638	2,007	536	**11,360**

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)
					14,880

TANESCO

At March 31, 2017 TANESCO owed the Company US$76.2 million excluding interest (including arrears of US$74.4 million) compared to US$80.1 million (including arrears of US$74.4 million) as at December 31, 2016. Current TANESCO receivables as at March 31, 2017 amounted to US$1.8 million (Q4 2016: US$5.7 million). Since the quarter end, TANESCO has paid the Company US$6.5 million, and as at the date of this report the total TANESCO receivable is US$74.4 million (of which US$74.4 million has been provided for). 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.

Long-term trade and other receivables

	AS AT	
US$'000	**MARCH 31, 2017**	DECEMBER 31, 2016
TANESCO receivable	**74,361**	74,361
Provision for doubtful accounts	**(74,361)**	(74,361)
Net TANESCO receivable	**–**	–
VAT receivable	**2,532**	318
Lease deposit	**212**	207
Long-term trade and other receivables	**2,744**	525

Songas

As at March 31, 2017 Songas owed the Company US$10.2 million (Q4 2016: US$23.3 million), while the Company owed Songas US$2.1 million (Q4 2016: US$2.3 million); there is no contractual right to offset these amounts. 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.

As at March 31, 2017 the net amount owed by Songas to the Company was US$8.1 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. Any significant amounts not agreed 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	Gross balance March 31, 2017	Post quarter end payments and receipts	Outstanding as at the date of this report
Pipeline tariff – payable	(1,893)	249	**(1,644)**	1,644	–
Gas sales – receivable	2,218	1,148	**3,366**	(3,366)	–
Gas plant operation receivable	6,601	206	**6,807**	(1,488)	5,319
Workover programme	14,458	(14,458)	**–**	–	–
Other payable	(378)	(83)	**(461)**	83	(378)
Net balances	21,006	(12,938)	**8,068**	(3,127)	4,941

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)]	7,472	–	–	–	–	7,472
As at March 31, 2017	**203,096**	**699**	**1,366**	**380**	**1,125**	**206,666**
Accumulated depletion and depreciation						
As at January 1, 2017	84,580	626	1,304	249	1,014	87,773
Depletion and depreciation	2,251	44	19	22	4	2,340
As at March 31, 2017	**86,831**	**670**	**1,323**	**271**	**1,018**	**90,113**
Net book values						
As at March 31, 2017	**116,265**	**29**	**43**	**109**	**107**	**116,553**
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$84.0 million will be required to bring the total proved reserves to production. During the quarter the Company recorded depreciation of US$0.1 million (Q1 2016: US$0.1 million) in general and administrative expenses.

13

TRADE AND OTHER PAYABLES

US$'000	AS AT MARCH 31, 2017	DECEMBER 31, 2016
Songas	**1,644**	1,893
Other trade payables	**2,691**	3,245
Trade payables	**4,335**	5,138
TPDC share of Profit Gas	**27,416**	28,319
Accrued liabilities	**5,879**	6,250
	37,630	39,707

14 LONG-TERM LOAN

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

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 interest incurred has been paid. In addition, an annual variable participatory interest equating to 7% of the net cash flow from operating activities of PAET net of net cash flows used in investing activities 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 of US$0.7 million was made for the three months ended March 31, 2017 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 participating interest are outstanding.

	AS AT	
US$'000	**MARCH 31, 2017**	DECEMBER 31, 2016
Total IFC facility	**60,000**	60,000
Loan drawdown	**60,000**	20,000
Financing costs	**(1,601)**	(1,601)
	58,399	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 (20) votes per share and Class B shares carry one vote per share. The Class A shares are convertible at the option of the holder at any time into Class B shares on a one-for-one basis. The Class B shares are convertible into Class A shares on a one-for-one basis in the event that a take-over bid is made to purchase Class A shares which must, by reason of a stock exchange or legal requirements, be made to all or substantially all of the holders of Class A shares and which is not concurrently made to holders of Class B shares.

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

	2017		
Number of shares	Authorised *(000)*	Issued *(000)*	Amount *(US$'000)*
Class A			
As at January 1, 2017 and March 31, 2017	**50,000**	**1,751**	**983**
Class B			
As at 1 January 2017	100,000	33,106	84,505
First preference			
As at January 1, 2017 and March 31, 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
Granted	365	3.87
Outstanding as at March 31, 2017	**2,470**	**2.12 to 3.87**

The number outstanding, the weighted average remaining life and weighted average exercise prices of SARs at March 31, 2017 were as follows:

Exercise Price *(CDN$)*	Number outstanding as at March 31, 2017 *(000)*	Weighted average remaining contractual life *(years)*	Number exercisable as at March 31, 2017 *(000)*	Weighted average exercise price *(CDN$)*
2.12 to 2.30	1,570	1.71	918	2.27
2.32 to 2.70	100	0.40	100	2.70
3.02 to 3.25	435	3.52	85	3.05
3.87	365	4.77	–	3.87
2.12 to 3.87	**2,470**	**2.43**	**1,103**	**2.66**

Restricted Stock Units ("RSUs")	RSUs *(000)*	Exercise Price *(CDN$)*
Outstanding as at January 1, 2017	239	0.001
Exercised	(209)	0.001
Granted	259	0.001
Outstanding as at March 31, 2017	**289**	**0.001**

(i) A total of 259,067 RSUs were granted during the quarter. The RSUs vested on the date of grant have an exercise price of CDN$ .001 and have a five-year term.

As SARs and RSUs are settled in cash, they are re-valued at each reporting date using the Black-Scholes option pricing model with the resulting liability being recognized in trade and other payables. In the valuation of stock appreciation rights and restricted stock units at the reporting date, the following assumptions have been made: a risk free rate of interest of 0.5%, stock volatility of 26.15% to 49.47%; 0% dividend yield; 5% forfeiture; a closing stock price of CDN$3.85 per share.

	AS AT	
US$'000	**MARCH 31, 2017**	DECEMBER 31, 2016
SARs	**2,171**	2,495
RSUs	**835**	682
	3,006	3,177

As at March 31, 2017, a total accrued liability of US$3.0 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$0.8 million (Q1 2016: US$2.9 million) in general and administrative expenses.

16 EARNINGS PER SHARE

('000)	AS AT MARCH 31 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 earnings per share is based on a net income for the quarter of US$2.8 million (Q1 2016: US$5.6 million loss) and a weighted average number of Class A and Class B shares outstanding during the period of 34,856,432 (Q1 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. For the quarter ended March 31, 2017 US$0.1 million (Q1 2016: US$0.1 million) was incurred from this firm for services provided.

As at March 31, 2017 the Company has a total of US$0.1 million (Q1 2016: US$0.1 million) recorded in trade and other payables in relation to the related parties.

18

CONTRACTUAL OBLIGATIONS & COMMITTED CAPITAL INVESTMENTS

Protected Gas

Under the terms of the Gas Agreement for the Songo Songo project ("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 (165.1 Bcf as at March 31, 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.

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 remain unaltered and are fully available for utilization by the Company. Without a new agreement, there are no assurances that Songas will continue to allow the gas plant to operate above 70 MMcfd.

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.

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

When conditions are deemed appropriate and there is justification to further improve the reliability/ capacity of field deliverability, the Company may contemplate undertaking the remaining part or all of the Phase I Development Program. The additional costs are estimated to be approximately US$30 million.

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.

19 CONTINGENCIES

Taxation

		Tax dispute	Disputed amount US$' million		
Area	**Period**	**Reason for dispute**	**Principal**	**Interest**	**Total**
PAYE tax	2008-10	Pay-As-You-Earn ("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	2008-13	Deductibility of capital expenditures and expenses (2009 and 2012), additional income tax (2008, 2010, 2011 and 2012), tax on repatriated income (2012), foreign exchange rate application (2013 and 2015) and underestimation of tax due (2014).	18.1	9.7	27.8(3)
Value Added tax ("VAT")	2008-10	Output VAT on imported services and SSI Operatorship services.	2.7	2.8	5.5(4)
			22.2	13.2	35.4

(1) In 2015 PAET appealed the Tax Revenue Appeals Board ("TRAB") ruling that PAET is liable to pay PAYE tax 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 the TRA filed an application for review of the Court of Appeal decision in favour of PAET and later filed another application for leave to amend its earlier application to which PAET filed a Preliminary Objection against. TRA withdrew their second application for review. On April 27, 2017 the Court of Appeal heard PAET Preliminary Objection. PAET are awaiting the Court 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 decision on this matter accordingly;

(3) (a) 2009 (US$1.8 million): In 2105, TRAT ruled against PAET with respect to the deductibility of capital expenditures and other expenses. PAET appealed to TRAT and subsequent to the quarter end, TRAT ruled against PAET. PAET is preparing to appeal to the Court of Appeal;

(b) 2008 and 2011 (US$1.8 million): In 2015 PAET filed objections against TRA assessments with respect to the deductibility of capital expenditures and other expenses as well as underestimation of interest and is awaiting a response. The 2008 assessment was issued late and is time-barred;

(c) 2010 and 2011 (US$4.2 million): PAET filed appeals with TRAB against TRA assessments with respect to the 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;

(d) 2013 (US$ 0.2 million): In 2016, PAET filed objections to TRA assessment with respect to foreign exchange rate application and is awaiting a response;

(e) 2012 (US$16.0 million): In 2016, TRA issued two assessments with respect to understated revenue, deductibility of capital expenditures and 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 and is awaiting a hearing date to be scheduled;

(f) 2014 (US$3.4 million): In 2016, TRA issued an-assessment with respect to underestimation of tax due based on the provisional quarterly payments made by PAET, delayed filings of returns and late payments. PAET filed objections to the assessments and is awaiting a response;

(g) 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) 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 TRA assessment and is awaiting a hearing date to be scheduled.

(5) On March 29, 2017, management received a tax audit findings report from the TRA for the years 2012-14. The report requests the Company to elaborate on the corporation tax, repatriated income, VAT and withholding tax. Subsequent to the quarter end, management submitted its response to the TRA audit findings report and is awaiting further correspondence from the TRA.

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.