ORCA

ORCA EXPLORATION GROUP INC.

Q1

2019 Q1 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
MMcf	Millions of standard cubic feet
Bcf	Billions of standard cubic feet
Tcf	Trillions of standard cubic feet
MMcfd	Millions of standard cubic feet per day
MMbtu	Millions of British thermal units
1P	Proven reserves
2P	Proven and probable reserves
3P	Proven, probable and possible reserves
Kwh	Kilowatt hour
MW	Megawatt
$	US dollars
CDN$	Canadian dollars
bar	Fifteen pounds pressure per square inch

Financial and Operating Highlights

(Expressed in $'000 unless indicated otherwise)	THREE MONTHS ENDED MARCH 31 2019	2018	% change 2019 vs 2018
OPERATING			
Daily average gas delivered and sold *(MMcfd)*	**61.3**	37.4	64%
Industrial	**11.6**	13.9	(17)%
Power	**49.7**	23.5	111%
Average price *($/mcf)*			
Industrial	**7.97**	7.79	2%
Power	**3.43**	3.60	(5)%
Weighted average	**4.29**	5.16	(17)%
Operating netback *($/mcf)* [1]	**2.48**	2.23	11%
FINANCIAL			
Revenue	**19,936**	14,223	40%
Net cash flows from operating activities	**13,206**	1,527	765%
per share - basic and diluted *($)*	**0.37**	0.04	765%
Net income (loss) attributable to shareholders	**2,784**	(4,611)	n/m
per share - basic and diluted *($)*	**0.08**	(0.13)	n/m
Adjusted funds flow from operations [1]	**9,037**	2,975	204%
per share - basic and diluted *($)*	**0.26**	0.08	204%
Capital expenditures	**1,092**	819	33%

	AS AT MARCH 31, 2019	DECEMBER 31, 2018	
Working capital (including cash)	**90,325**	84,182	7%
Cash and cash equivalents	**40,372**	64,660	(38)%
Investment in short-term bonds	**101,119**	66,837	51%
Long-term loan	**53,943**	53,900	0%
Outstanding shares *('000)*			
Class A	**1,750**	1,750	0%
Class B	**33,506**	33,506	0%
Total shares outstanding	**35,256**	35,256	0%
Weighted average Class A and Class B shares *('000)*	**35,256**	35,256	0%

[1] *Please refer to Non-GAAP measures section of the Management Discussion and Analysis ("MD&A") for additional Information. Certain prior year amounts for adjusted funds flow from operations have been reclassified to conform with the current year presentation.*

Q1 2019 Operating Highlights

- During Q1 2019 the Company continued delivering and selling gas through the National Natural Gas Infrastructure ("NNGI") which allowed the Company to maintain the increase in gas deliveries initiated in Q4 2018 pursuant to a side letter agreement to the Portfolio Gas Supply Agreement ("PGSA"). Deliveries had been previously restricted by infrastructure capacity limitations. The Company is awaiting final sign off from the Tanzania Production Development Corporation ("TPDC") of a new Gas Sales Agreement ("GSA"). This will replace the side letter agreement and allow the Company to sustain on a long-term basis the increased sales achieved through Q1 2019. Finalising the GSA also establishes the conditions for increased long-term gas sales to TPDC to meet future demand via the NNGI.
- The Company's revenue for the quarter increased by 40% to $19.9 million from $14.2 million in Q1 2018. The increase is the result of higher revenues from sales to the Tanzanian Electric Supply Company Limited ("TANESCO") and a positive current income tax adjustment as a consequence of recording a profit in the period. Gas deliveries and sales for the quarter averaged 61.3 million standard cubic feet per day ("MMcfd") an increase of 64% over 37.4 MMcfd in Q1 2018. The increase in gas volume deliveries for the period is primarily the result of increased nominations of gas volumes by the TANESCO through the NNGI. The increase in volumes was partially offset by a 17% decrease in the weighted average price for Q1 2019 to $4.29/mcf from $5.16/mcf in the prior period.
- The Company recorded a net income attributable to shareholders of $2.8 million for the quarter compared to a net loss attributable to shareholders of $4.6 million in Q1 2018. The increase in net income attributable to shareholders between periods was primarily a result of the increase in revenue, reduced stock based compensation and the decrease in the finance expense between periods.
- The Company's net cash flows from operating activities for the quarter increased by 765% to $13.2 million from $1.5 million in Q1 2018. The increase between periods is attributable to the same factors that resulted in the increase in net income.
- The Company's adjusted funds flow from operations for the quarter increased to $9.0 million from $3.0 million in Q1 2018. The increase is primarily a result of the increase in revenue between periods.
- Working capital increased 7% to $90.3 million compared to $84.2 million as at December 31, 2018. The increase is primarily due to the increase in cash and cash equivalents and investment in short-term bonds as a result of higher revenues from deliveries to TANESCO and the resulting cash collections received. The combined total of cash and investment in short-term bonds at March 31, 2019 was $141.5 million (December 31, 2018: $131.5 million), an increase of 7%. The Company's intention is to hold the bond investments to maturity.
- At March 31, 2019 the current receivable from TANESCO was $0.6 million (December 31, 2018: $ nil) and the deferred revenue balance was $ nil (December 31, 2018: $ nil). The long-term trade receivable at March 31, 2019 was $58.5 million with a provision of $58.5 million (December 31, 2018: $58.5 million with a provision of $58.5 million). Subsequent to March 31, 2019 the Company has invoiced TANESCO $5.6 million for April 2019 gas deliveries and TANESCO has paid the Company $9.2 million.
- On January 22, 2019 the Company declared a dividend of CDN$0.05 per share on each of its class A voting and class B subordinate voting shares for a total of $1.3 million payable to the holders of record as of March 31, 2019 and paid on April 30, 2019.
- On March 31, 2019 the Company announced that, pursuant to the terms of an investment agreement dated December 29, 2017 with Swala Oil & Gas (Tanzania) plc ("Swala") in respect of the sale of additional shares of PAEM, the parties agreed to terminate the investment agreement. PAEM share ownership will remain at 92.1% by Orca and 7.9% by Swala.

ORCA EXPLORATION GROUP INC.

Q1 2019 MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion & Analysis

THIS MD&A OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2019 SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND NOTES FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TOGETHER WITH THE MD&A FOR THE YEAR ENDED DECEMBER 31, 2018. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON MAY 16, 2019.

NATURE OF OPERATIONS

The Company's principal operating asset is its interest in the Production Sharing Agreement ("PSA") with the Tanzanian 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 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) to Songas Limited ("Songas"). Songas is the owner of the infrastructure that enables the Protected Gas to be treated and delivered to Dar es Salaam, which includes a gas processing plant on Songo Songo Island.

Songas utilizes the Protected Gas as fuel for its gas turbine electricity generators at Ubungo and for onward sale to customers. The Company receives no revenue for the Protected Gas delivered to Songas and operates the original wells and gas processing plant on a 'no gain no loss' basis. Under the PSA, the Company has the right to produce and market all gas in the Songo Songo Block in excess of the Protected Gas requirements ("Additional Gas") until the PSA expires in October 2026.

The Tanzanian Electric Supply Company Limited ("TANESCO") is a parastatal organization which is wholly-owned by the Government of Tanzania, with oversight by the Ministry of Energy ("MoE"). TANESCO is responsible for the majority of generation, transmission and distribution of electricity throughout Tanzania. Natural gas has become an integral component of TANESCO's power generation fuel mix as a more reliable source of supply over seasonal hydropower and a more cost-effective alternative to liquid fuels. The Company currently supplies gas directly to TANESCO by way of the Portfolio Gas Sales Agreement ("PGSA") and indirectly through the supply of Protected Gas and Additional Gas to Songas, which in turn generates and sells power to TANESCO. TANESCO is the Company's largest customer and the gas supplied by the Company to Songas and TANESCO today fires approximately 46% of the electrical power generated in Tanzania and 72% 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 39 industrial customers

Consolidation

The companies which are consolidated in the financial statements are:

COMPANY	INCORPORATED	HOLDING
Orca Exploration Group Inc.	British Virgin Islands	Parent Company
Orca Exploration Italy Inc.	British Virgin Islands	100%
Orca Exploration Italy Onshore Inc.	British Virgin Islands	100%
PAE PanAfrican Energy Corporation ("PAEM")	Mauritius	92%
PanAfrican Energy Tanzania Limited ("PAET")	Jersey	92%
Orca Exploration UK Services Limited	United Kingdom	100%

Results for the three months ended March 31, 2019

SUMMARY

During Q1 2019 the Company continued delivering and selling gas through the National Natural Gas Infrastructure ("NNGI") which allowed the Company to maintain the increase in gas deliveries initiated in Q4 2018 pursuant to a side letter agreement to the Portfolio Gas Supply Agreement ("PGSA"). Deliveries had been previously restricted by infrastructure capacity limitations. The Company is awaiting final sign off from the Tanzania Production Development Corporation ("TPDC") of a new Gas Sales Agreement ("GSA"). This will replace the side letter agreement and allow the Company to sustain on a long-term basis the increased sales achieved through Q1 2019. Finalising the GSA also establishes the conditions for increased long-term gas sales to TPDC to meet future demand via the NNGI.

The Company's operating revenue increased by 15% to $16.6 million in the quarter ended March 31, 2019 (Q1 2018: $14.5 million). Gas deliveries increased by 64% to 61.3 MMcfd (Q1 2018: 37.4 MMcfd) leading to a significant increase in operating revenue between periods mainly associated with the higher deliveries to TANESCO through the NNGI. Revenue increased by 40% to $19.9 million (Q1 2018: $14.2 million), the increase is primarily a consequence of higher revenues from sales to TANESCO and a positive current income tax adjustment as a consequence of recording a profit in the period.

The Company's net cash flows from operating activities for the quarter ended March 31, 2019 increased by 765% to $13.2 million (Q1 2018: $1.5 million). The increase is principally due to an increase in revenue between periods and a decrease in share based compensation; the Q1 2018 result reflected the exercise of significant share awards following completion of the sale of a non-controlling interest in PAEM.

The Company's adjusted funds flow from operations for the quarter ended March 31, 2019 was $9.0 million (Q1 2018: $3.0 million). The increase is the result of the increase in volumes and revenue between periods.

The Company recorded net income attributable to shareholders of $2.8 million in the quarter ended March 31, 2019 (Q1 2018: $4.6 million net loss). Net income increased primarily as a result of the increase in revenue, reduced share based compensation expense and decreased finance expense between periods.

During the quarter the Company continued construction of a refrigeration unit for the Songas gas plant which is scheduled for completion by June 30, 2019. Total capital expenditures for the quarter were $1.1 million (Q1 2018: $0.8 million). The Q1 2018 expenditures related primarily to the completion of well SS-12 flowlines to enable connection to the NNGI.

The Company once again exited the period in a stable financial position with $90.3 million in working capital (December 31, 2018: $84.2 million), cash and cash equivalents of $40.4 million (December 31, 2018: $64.7 million), investment in short-term bonds of $101.1 million (December 31, 2018: $66.8 million) and long-term debt of $53.9 million (December 31, 2018: $53.9 million).

On January 22, 2019 the Company declared a dividend of CDN$0.05 per share for a total of $1.3 million on each of its class A voting and class B subordinate voting shares, payable to the holders of record as of March 31, 2019 and paid on April 30, 2019.

On March 31, 2019 the Company announced that, pursuant to the terms of an investment agreement dated December 29, 2017 with Swala Oil & Gas (Tanzania) plc ("Swala") in respect of the sale of additional shares of PAEM, the parties agreed to terminate the investment agreement. PAEM share ownership will remain at 92.1% by Orca and 7.9% by Swala.

OPERATING VOLUMES

The gross sales volumes for the quarter ended March 31, 2019 were 5,520 MMcf (Q1 2018: 3,365 MMcf) or average daily volumes of 61.3 MMcfd (Q1 2018: 37.4 MMcfd). This represents an increase in average daily volumes of 64% quarter over quarter. The increase in gross sales volume is due to increased consumption of natural gas by TANESCO compared to 2018. The Company's gross sales volumes were split between the Industrial and Power sectors as detailed in the table below:

	THREE MONTHS ENDED MARCH 31	
	2019	2018
Gross sales volume *(MMcf)*		
Industrial sector	**1,048**	1,251
Power sector	**4,472**	2,114
Total volumes	**5,520**	3,365
Gross daily sales volume *(MMcfd)*		
Industrial sector	**11.6**	13.9
Power sector	**49.7**	23.5
Total daily sales volume	**61.3**	37.4

Industrial sector

Industrial sales volumes for the quarter ended March 31, 2019 were 1,048 MMcf (Q1 2018: 1,251 MMcf), or average daily volumes of 11.6 MMcfd (Q1 2018: 13.9 MMcfd). The represents a decrease in average daily volumes of 17% quarter over quarter. The decrease in the quarterly volumes was due to the decreased gas consumption by a cement plant during the quarter compared to Q1 2018.

Power sector

Power sector sales volumes for the quarter ended March 31, 2019 were 4,472 MMcf (Q1 2018: 2,114 MMcf), or average daily volumes of 49.7 MMcfd (Q1 2018: 23.5 MMcfd). The represents an increase in average daily volumes of 111% quarter over quarter. The increase in the quarterly volumes was due to increased gas consumption by TANESCO.

Protected Gas volumes

Protected Gas volumes for the quarter ended March 31, 2019 were 3,746 MMcf (Q1 2018: 3,621 MMcf) or average daily volumes of 41.6 MMcfd (Q1 2018: 40.2 MMcfd). The Company receives no revenue for the Protected Gas volumes however the volumes are required to calculate total gas produced from the reservoir and the allocation of certain production, distribution and transportation expenses between Protected Gas and Additional Gas.

SONGO SONGO DELIVERABILITY

As at March 31, 2019 the Company had a well production capability of approximately 130 MMcfd. Until well SS-12 began producing through the NNGI on Songo Songo Island in December 2018, production had been limited to 97 MMcfd due to a combination of Songas Infrastructure capacity limitations and reservoir pressure decline. With the installation of the refrigeration unit at the Songas Plant scheduled for completion in Q2 2019, well production capability of 130 MMcfd can be sustained until the installation of compression, currently scheduled for completion by the end of 2021. This will provide the ability to expand the level of well production capability from 130 MMcfd to approximately 165 MMcfd by continuing to increase gas produced through the NNGI.

Well SS-12 is currently supplying up to 35 MMcfd of Additional Gas to TANESCO through the NNGI via a side letter agreement to the PGSA. Subject to approval of the GSA, the Company plans to sell gas volumes at the well-head, directly to TPDC through the NNGI. Well SS-3 is currently suspended and well SS-4 has been shut-in pending the commissioning of the refrigeration unit at the Songas Plant. The Company may undertake workovers on both the wells in the future together with well SS-10.

As at March 31, 2019 well SS-11 is tied into both the Songas Plant and the NNGI, but aligned and supplying gas only to the Songas plant, while well SS-12 is only tied into the NNGI. The facilities for the connection of well SS-10 to the NNGI are available and the connection can be completed when required. It is currently anticipated that wells SS-10 and SS-11 will be realigned and or interconnected as and when further volumes to the NNGI are required.

COMMODITY PRICES

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

	THREE MONTHS ENDED MARCH 31	
$/mcf	**2019**	2018
Average sales price		
Industrial sector	**7.97**	7.79
Power sector	**3.43**	3.60
Weighted average price	**4.29**	5.16

Industrial sector

The average gas price achieved during the quarter ended March 31, 2019 was $7.97/mcf an increase of 2% from $7.79/mcf in Q1 2018. The increase in prices is primarily due to the underlying increase in the price of heavy fuel oil against which most of the industrial customer contracts are priced.

Power sector

The average gas price achieved during the quarter ending March 31, 2019 was $3.43/mcf a decrease of 5% from $3.60/mcf in Q1 2018. The decrease Is due to the increase in gas volumes sold through the NNGI to TANESCO at well head gas prices compared to gas volumes sold through the Songas facilities which include processing and transportation tariffs.

COMPANY OPERATING REVENUE

Under the terms of the Production Sharing Agreement ("PSA"), the Company is responsible for invoicing, collecting and allocating the net field revenue from gas sales. See "Principal Terms of the Tanzanian PSA and Related Agreements" in the MD&A within the audited financial statements for 2018.

The Company is able to recover all costs incurred on the exploration, development and operations of the project ("Contract Expenses") up to a maximum of 75% of the net field revenue through Cost Gas revenue prior to the distribution of Profit Gas revenue. Any Contract Expenses not recovered in any period are carried forward for recovery out of future revenues (the "Cost Pool"). Once the Cost Pool has been recovered, TPDC is able to recover any pre-approved marketing costs. Currently there are no pre-approved marketing costs for TPDC.

The average Additional Gas sales volumes for the quarter ended March 31, 2019 were above 60 MMcfd; as a consequence, the Company was entitled to a 55% share of Profit Gas revenue, compared to a 35% share in Q1 2018 when the Additional Gas volumes were below 40 MMcfd.

The Company was allocated a total of 67% of the net field revenue for the quarter (Q1 2018: 64%).

The reconciliation of gross field revenue to Company operating revenue and net field revenue is detailed below:

	THREE MONTHS ENDED MARCH 31	
$'000	**2019**	2018
Industrial sector	**8,351**	9,747
Power sector	**15,340**	11,782
Gross field revenue	**23,691**	21,529
TPDC share of revenue	**(7,043)**	(7,038)
Company operating revenue	**16,648**	14,491
Reconciliation to net field revenue:		
Gross field revenue	**23,691**	21,529
Tariff for processing and pipeline infrastructure	**(2,079)**	(1,981)
Net field revenue	**21,612**	19,548
Allocation of net field revenue:		
Company Cost Gas revenue	**5,961**	8,501
Company Profit Gas revenue	**8,608**	4,009
Company share of net field revenue	**14,569**	12,510
TPDC Profit Gas entitlement	**7,043**	7,038
Net field revenue	**21,612**	19,548

The Company's operating revenue was $16.6 million in the quarter ended March 31, 2019 (Q1 2018: $14.5 million). The increase is primarily a result of increased sales to TANESCO partially offset by the decrease in deliveries to industrial customers.

Revenue presented on the Consolidated Interim Statements of Comprehensive Income (Loss) may be reconciled to the Company operating revenue by adding $3.3 million income tax for the quarter. The Company is liable for income tax in Tanzania, but under the terms of the PSA TPDC's Profit Gas entitlement is adjusted for the tax payable. To account for this, revenue is adjusted to include the current income tax charge grossed up at 30%.

Reconciliation of Company operating revenue to revenue:

	THREE MONTHS ENDED MARCH 31	
$'000	**2019**	2018
Company operating revenue	**16,648**	14,491
Current income tax adjustment	**3,288**	(268)
Revenue	**19,936**	14,223

TANESCO impact on revenue

The Company records 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 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 percentage used to recognize TANESCO revenue will be reviewed as circumstances require. Since the start of Q2 2018 the Company has been recording 100% of deliveries to TANESCO as revenue. This is a result of TANESCO's consistent payment history over the last three years.

Prior to April 1, 2018 cash received in excess of the revenue recorded for deliveries to TANESCO in any given period was recorded as deferred revenue. In periods when the deferred revenue balance was greater than the amounts invoiced to TANESCO, for gas deliveries for the previous four quarters, any amount in excess of the previous four quarter average was recorded as current period revenue to the extent there had been unrecognized revenue resulting from the expected collectability approach. If such unrecognized revenue is reduced to nil, additional amounts collected in excess of the quarterly average will be applied to pay the oldest TANESCO invoice recorded and previously provided for. In periods when cash received is less than revenue recorded, the deferred revenue will be reduced accordingly. If the deferred revenue amount is reduced to nil, the difference will be recorded as accounts receivable.

PRODUCTION, DISTRIBUTION AND TRANPORTATION EXPENSES

Well maintenance costs are allocated between Protected Gas and Additional Gas in proportion to their respective volumes during the period. The total cost of maintenance for the quarter ended March 31, 2019 was $0.2 million (Q1 2018: $0.2 million). Amounts allocated for Additional Gas for the quarter were $0.1 million (Q1 2018: $0.1 million).

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

The processing and transportation tariff charges for the quarter ended March 31, 2019 were $2.1 million (Q1 2018: $2.0 million). The higher tariff costs are a result of the increase in production volumes.

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 $0.5 million (Q1 2018: $0.6 million). The production, distribution and transportation expenses are detailed in the table below:

	THREE MONTHS ENDED MARCH 31	
$'000	**2019**	2018
Share of well maintenance	**38**	50
Other field and operating costs	**226**	207
	264	257
Tariff for processing and pipeline infrastructure	**2,079**	1,981
Ring main distribution costs	**535**	551
Production, distribution and transportation expenses	**2,878**	2,789

OPERATING NETBACKS

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

	THREE MONTHS ENDED MARCH 31	
$/mcf	**2019**	2018
Gas price - Industrial	**7.97**	7.79
Gas price - Power [(1)]	**3.43**	3.60
Weighted average price for gas	**4.29**	5.16
TPDC share of revenue	**(1.28)**	(2.09)
Well maintenance and other operating costs	**(0.05)**	(0.08)
Tariff for processing and pipeline infrastructure	**(0.38)**	(0.59)
Ring main distribution costs	**(0.10)**	(0.17)
Operating netback	**2.48**	2.23

[(1)] *The weighted average sales price is stated before the change 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 increased by 11% to $2.48/mcf (Q1 2018: $2.23/mcf). The increase in the quarter is predominately due to: i) the decrease in TPDC share of revenue to $1.28/Mcf (Q1 2018: $2.09/Mcf) as a consequence of the increase in the Company Profit Gas revenue entitlement; and ii) the decrease in tariff for processing and pipeline infrastructure to $0.38/Mcf from $0.59/Mcf as a consequence of increased volumes through the NNGI.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are detailed in the table below:

	THREE MONTHS ENDED MARCH 31	
$'000	**2019**	2018
Employee and related costs	**2,169**	1,751
Office costs	**1,019**	1,332
Marketing and business development costs	**176**	136
Reporting, regulatory and corporate	**174**	302
General and administrative expenses	**3,538**	3,521

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.

	THREE MONTHS ENDED MARCH 31	
$'000	**2019**	2018
Tanzania	**2,198**	2,232
Corporate	**1,340**	1,289
	3,538	3,521

General and administrative expenses averaged $1.2 million (Q1 2018: $1.2 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 MARCH 31	
$'000	**2019**	2018
Stock appreciation rights ("SARs")	**7**	2,385
Restricted stock units ("RSUs")	**36**	2,244
Stock-based compensation	**43**	4,629

As at March 31, 2019 a total of 412,000 SARs were outstanding compared to 645,000 as at December 31, 2018. A total of 233,000 SARs with exercise prices ranging from CDN$2.30 to CDN$3.25 were exercised during the quarter resulting in a total cash payout of $0.5 million. As at March 31, 2019 a total of 25,000 RSUs were outstanding compared to 87,500 at December 31, 2018. A total of 62,500 RSUs were exercised during the quarter resulting in a total cash payout of $0.3 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 1.0%; stock volatility of 29.9% to 44.8%; 0% dividend yield; 5% forfeiture; and a closing price of CDN$4.95 per Class B share.

As at March 31, 2019 a total accrued liability of $0.8 million (December 31, 2018: $1.6 million) has been recognized in relation to SARs and RSUs. The Company recognized an expense of $0.04 million for the quarter ending March 31, 2019 (Q1 2018: $4.6 million). The decrease in expense reflects the decrease in outstanding SARs and RSUs between periods and the increase in share price during Q1 2018 as a result of the sale of the non-controlling interest in PAEM and the corresponding exercise of a large number of awards.

FINANCE INCOME AND EXPENSE

Finance income is detailed in the table below:

	THREE MONTHS ENDED MARCH 31	
$'000	**2019**	2018
Interest income	**84**	237
Investment income	**587**	–
	671	237

At March 31, 2019 the Company had $101.1 million (December 31, 2018: $66.8 million) invested in US dollar short-term bonds with maturity dates from April 2019 to March 2020 and a range of interest rates from 0.875% to 2.25%. The $0.6 million investment income for the quarter ended March 31, 2019 includes accrued interest of $0.3 million and amortization of the discount on the acquisition of the bonds of $0.3 million. The Company's intent is to hold the bond investments to maturity; however, the bonds are highly liquid by their nature and may readily be converted into cash if necessary.

Finance expense is detailed in the table below:

	THREE MONTHS ENDED MARCH 31	
$'000	**2019**	2018
Base interest expense	**1,543**	1,538
Participatory interest expense	**854**	3,138
Interest expense	**2,397**	4,676
Net foreign exchange loss	**92**	383
Indirect tax	**338**	264
	2,827	5,323

Base interest expense and participatory interest expense relate to the long-term loan. The base interest expense during the quarter was $1.5 million (Q1 2018: $1.5 million). The participatory interest expense during the quarter was $0.9 million (Q1 2018: $3.1 million); the decrease is related to an additional payment of $2.6 million in Q1 2018 associated with the sale of a 7.9% interest in PAEM in January 2018 (see "Long-Term Loan").

The indirect tax of $0.3 million for the quarter (Q1 2018: $0.3 million) is VAT associated with invoices to TANESCO for interest on late payments. These invoices are not recognized in the financial statements as they do not meet revenue recognition criteria with respect to assurance of collectability.

TANESCO

At March 31, 2019 the current receivable from TANESCO was $0.6 million (December 31, 2018: $ nil). The long-term trade receivable at March 31, 2019 was $58.5 million with a provision of $58.5 million (December 31, 2018: $58.5 million with a provision of $58.5 million). Subsequent to March 31, 2019 the Company has invoiced TANESCO $5.6 million for April 2019 gas deliveries and TANESCO has paid the Company $9.2 million.

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

		AS AT
$'000	**MARCH 31, 2019**	DECEMBER 31, 2018
Total TANESCO receivable	**124,109**	121,393
Unrecognized amounts for not meeting revenue recognition criteria [(i)]	**(65,058)**	(62,895)
Provision for doubtful accounts	**(58,498)**	(58,498)
Current receivable	**553**	–

[(i)] *The amount includes invoices for interest on late payments and invoices relating to differences between natural gas contracted for delivery versus natural gas taken by TANESCO.*

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 March 31, 2019 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 $13.2 million (December 31, 2018: $12.8 million). During the quarter there was a deferred tax recovery of $0.4 million compared with a deferred tax charge of $0.4 million in Q1 2018. The deferred tax has no impact on cash flow until it becomes current income tax, at which point the tax is paid and recovered from TPDC's share of Profit Gas.

Additional Profits Tax

Under the terms of the PSA, Additional Profits Tax ("APT") is payable where the Company has recovered its costs plus a specified return out of Cost Gas revenues and Profit Gas revenues. As a result: (i) no APT is payable until the Company recovers its costs out of Additional Gas revenues plus an annual operating return under the PSA of 25% plus the percentage change in the United States Industrial Goods Producer Price Index ("PPI"); and (ii) the maximum APT rate is 55% of the Company's Profit Gas when costs have been recovered with an annual return of 35% plus PPI return.

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

The Company provides for 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 19.66% (Q1 2018: 19.25%) has been applied to Profit Gas of $8.6 million (Q1 2018: $4.0 million). Accordingly, $1.7 million of APT has been recorded as other income tax for the quarter ended March 31, 2019 (Q1 2018: $0.8 million).

	THREE MONTHS ENDED MARCH 31	
$'000	**2019**	2018
Additional Profits Tax	**1,692**	774

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 proved reserves. As at December 31, 2018 the estimated proved reserves remaining to be produced over the term of the PSA licence were 261 Bcf (2017: 307 Bcf). A depletion expense of $3.5 million for the quarter (Q1 2018: $2.0 million) has been recorded in the accounts at an average depletion rate to $0.63/mcf (Q1 2018: $0.60/mcf).

Non-natural gas properties are depreciated as follows:

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

CARRYING AMOUNT OF ASSETS

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

CAPITAL EXPENDITURES

During the quarter ended March 31, 2019 the Company incurred $1.1 million (Q1 2018: $0.8 million) in capital expenditures relating primarily to the refrigeration project. The costs in Q1 2018 were primarily for the flowlines to tie-in well SS-12 to the NNGI.

	THREE MONTHS ENDED MARCH 31	
$'000	**2019**	2018
Pipelines and infrastructure	**1,085**	792
Other capital expenditures	**7**	27
	1,092	819

CASH FLOW SUMMARY

	THREE MONTHS ENDED MARCH 31	
$'000	**2019**	2018
Operating activities		
Net income (loss)	**3,084**	(4,638)
Non-cash adjustments	**5,953**	7,613
Interest expense	**2,397**	4,676
Changes in non-cash working capital (1)	**1,772**	(6,124)
Net cash flows from operating activities	**13,206**	1,527
Net cash used in investing activities	**(1,489)**	(811)
Net cash used in financing activities	**(35,984)**	(5,291)
Decrease in cash	**(24,267)**	(4,575)
Effect of change in foreign exchange on cash	**(21)**	66
Net decrease in cash	**(24,288)**	(4,509)

(1) See Consolidated Interim Statements of Cash Flows

The Company's net cash flows from operating activities for the quarter ended March 31, 2019 increased to $13.2 million (Q1 2018: $1.5 million). The increase is a consequence of the increase in revenue between periods and a decrease in stock based compensation; the Q1 2018 result reflected the exercise of significant share awards following completion of the sale of a non-controlling interest in PAEM during Q1 2018. The increase in cash used in financing activities is primarily a result of an additional investment in short-term bonds.

WORKING CAPITAL

Working capital as at March 31, 2019 was $90.3 million (December 31, 2018: $84.2 million) and is detailed in the table below:

				AS AT
$'000		**MARCH 31, 2019**		DECEMBER 31, 2018
Cash		**40,372**		64,660
Investment in short term bonds		**101,119**		66,837
Trade and other receivables		**14,857**		15,862
Songas	2,358		2,489	
TANESCO	553		–	
Industrial customers	8,112		9,107	
Songas gas plant operations	6,297		6,496	
Other receivables	1,704		1,937	
Provision for doubtful accounts	(4,167)		(4,167)	
Prepayments		**898**		1,217
		157,246		148,576
Trade and other payables		**65,893**		64,394
TPDC share of Profit Gas revenue [(1)]	39,440		40,260	
Songas	1,555		1,785	
Other trade payables	2,087		2,725	
Accrued liabilities	18,051		14,864	
Current portion of long-term debt	4,760		4,760	
Tax payable		**1,028**		–
		66,921		64,394
Working capital [(2)]		**90,325**		84,182

(1) *The balance of $39.4 million payable to TPDC is the accrued liability for their share of Profit Gas revenue primarily related to unpaid gas deliveries to TANESCO, net of $2.1 million previously recorded as tax recoverable. The majority of the settlement of this liability is dependent on receipt of payment from TANESCO for arrears. A total of $4.6 million was paid to TPDC in February 2019 for Q4 2018 and $5.1 million in April 2019 for Q1 2019.*

Other significant points are:

- There are no restrictions on the movement of cash from Mauritius or Tanzania, and over 90% of the Company's cash and investment in bonds is currently held outside of Tanzania.
- The Company expects to have sufficient cash flows from operating activities and working capital to cover forecast debt and interest payments ($13.0 million) and capital expenditures ($3.4 million) for 2019. The Company does not expect to incur any losses from debtors in 2019.
- Of the $8.1 million receivable relating to industrial customers $4.4 million had been received as at the date of this report.

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LONG-TERM LOAN

The Company's subsidiary, PAET, entered into a loan agreement (the "Loan") in 2015 with the International Finance Corporation ("IFC"), a member of the World Bank Group, for $60 million. The Loan was fully drawn down in 2016.

The term of the Loan is ten years, with no required repayment of principal for the first seven years, followed by a three-year amortization period. The Loan is to be paid out through six semi-annual payments of $5 million starting April 15, 2022 and one final payment of $30 million due on April 15, 2025. 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 (taken on December 14, 2015), 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 was initially guaranteed by the Company to a maximum of $30 million. The initial guarantee may only be called upon by the IFC at maturity in 2025. Subject to receipt of the IFC approval and required regulatory approvals, the Company, at its discretion, may issue shares in fulfillment of all or part of the guarantee obligation in 2025. Pursuant to the sale of the non-controlling interest in PAEM, the Company agreed with the IFC to reduce the outstanding amount of the loan by the percentage interest sold in PAEM of 7.9% ($4.8 million) on the fourth anniversary of the first drawdown. The Company has provided an additional guarantee to the IFC that if PAET is unable to pay down the loan on or before December 14, 2019, the Company will make the payment. This guarantee is in addition to the Company's initial guarantee.

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 amount of base interest during the quarter was $1.5 million (Q1 2018: $1.5 million).

In addition, the Loan included an annual variable participatory interest equating to 7.0% of the net cash flow 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. The participatory interest charged during the quarter was $0.9 million (Q1 2018: $3.1 million). The Q1 2018 charge includes an additional payment of $2.6 million associated with the sale of a 7.9% interest in PAEM in January 2018 in accordance with the terms of the Loan. As a result of the additional payment, the annual variable participatory interest was reduced from 7.0% to 6.4%. For the quarter ended March 31, 2019 the participatory interest included in accrued liabilities is $3.1 million (December 31, 2018: $2.2 million).

Dividends and distributions from PAET to the Company are restricted at any time that any amounts due for interest, principal or participating interest are outstanding. To date all amounts owing under the Loan agreement have been paid when due.

OUTSTANDING SHARES

There were 35,256,432 shares outstanding as at March 31, 2019 as detailed in the table below:

	AS AT	
Number of shares ('000)	**MARCH 31, 2019**	DECEMBER 31, 2018
Shares outstanding		
Class A shares	**1,750**	1,750
Class B shares	**33,506**	33,506
Class A and Class B shares outstanding	**35,256**	35,256
Weighted Average		
Class A and Class B shares	**35,256**	35,256
Weighted average diluted Class A and Class B shares	**35,256**	35,256

As at the date of this report there were a total of 1,750,517 Class A common voting shares ("Class A shares") and 33,505,915 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 costs of $0.05 million (Q1 2018: $0.1 million) were incurred by this firm for services provided. As at March 31, 2019 the Company has a total of $0.04 million (December 31, 2018: $0.04 million) 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 ($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 (196.5 Bcf as at March 31, 2019). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the term of the Protected Gas delivery obligation to July 2024.

Re-Rating Agreement

In 2011 the Company signed the Re-Rating Agreement which evidenced an increase to the gas processing capacity of the Songas Plant to a maximum of 110 MMcfd (the pipeline and delivery 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 $0.30/mcf for sales between 70 MMcfd and 90 MMcfd and $0.40/mcf for volumes above 90 MMcfd by issuing credit notes to TANESCO. This was in addition to the tariff of $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.

There remains a disagreement as to the current status of the Re-Rating Agreement, however, the processing capacity at the Songas Plant remains unaltered and is fully available for utilization by the Company. This capacity is in addition to the capacity available within the NNGI.

Portfolio Gas Supply Agreement

In June 2011 the PGSA was signed (term to June 30, 2023) between TANESCO (as the buyer) and the Company and TPDC (collectively as the seller). TANESCO requested a change to the PGSA Maximum Daily Quantity which PAET and TPDC approved effective January 29, 2018. The seller is now obligated, subject to infrastructure capacity, to sell a maximum of approximately 26 MMcfd (previously 36 MMcfd) for use in any of TANESCO's current power plants, except those operated by Songas at Ubungo. Under the agreement, the basic wellhead price of approximately $2.98/mcf increased to $3.04/mcf on July 1, 2017. Previously under the PGSA any sales in excess of 36 MMcfd were subject to a 150% increase in the basic wellhead gas price. On December 22, 2018 a side letter amendment to the PGSA was agreed with TPDC to allow PGSA volumes up to a maximum monthly average volume of 35 MMscf/d to temporarily flow through the NNGI. It is intended that this temporary arrangement is to be replaced by the initialed GSA. The extra and excess charges to TANESCO are not applicable for volumes supplied pursuant to the side letter agreement.

Operating leases

The Company has three office rental agreements, one in Dar es Salaam, Tanzania and two in England, one in Winchester and one in London. The agreement in Dar es Salaam was entered into on November 1, 2015 and expires on October 31, 2019 at an annual rent of $0.4 million. The agreement in Winchester expires on September 25, 2022 at an annual rental of $0.2 million per annum however subsequent to March 31, 2019 the Company finalized an agreement to assign the lease and recognized a one-time settlement cost for the lease of $0.2 million. The lease of the London office is for a twelve-month period starting February 1, 2019 at $0.2 million per annum. The costs of the leases and the settlement cost are recognized in the general and administrative expenses.

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 provided 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 began work on the onshore component of Phase A of the Development Program in 2018 that includes the installation of a refrigeration unit at the Songas Gas processing plant with an estimated cost of $8.5 million and well workovers with an estimated cost of $13.6 million. As at March 31, 2019 a total of $5.1 million had been spent on the refrigeration project, which is scheduled for completion in Q2 2019. A portion of the workover costs are for wells SS-3 and SS-4 and assuming that Songas, the owner of the wells, funds the costs of these workovers the estimated cost to the Company will be $5.1 million.

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.

CONTINGENCIES

Petroleum Act, 2015

The Petroleum Act, 2015 (the "Petroleum Act") repeals earlier legislation, provides a regulatory framework over upstream, mid-stream and downstream gas activity, and consolidates and puts in place a comprehensive legal framework for regulating the oil and gas industry in the country of Tanzania. 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 EWURA. The Petroleum Act also confers upon 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 petroleum activities. The Petroleum Act vests TPDC with exclusive rights in the entire petroleum upstream and the natural gas mid and downstream value chains. 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. However, it is still unclear how the provisions of the Petroleum Act will be interpreted and implemented regarding upstream and downstream activities and the Company is uncertain regarding the potential impact on its business in Tanzania.

On October 7, 2016 the Government of Tanzania 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. The impact of the Natural Gas Pricing Regulation, if any, cannot be determined at this time.

TPDC Back-in

TPDC has the rights under the PSA to 'back in' to the Songo Songo field development and to convert this into a carried working interest in the PSA. The current terms of the PSA require TPDC to provide formal notice in a defined period and contribute a proportion of the costs of any development, sharing in the risks in return for an additional share of the gas. To date, TPDC has not contributed any costs nor provided any formal notice of intent to do so.

Cost recovery

TPDC conducted an audit of the historic Cost Pool and in 2011 disputed approximately $34 million of costs that had been recovered from the Cost Pool from 2002 through to 2009. In 2014 a substantial portion of the disputed costs were agreed to be cost recoverable by TPDC. Under the dispute mechanism outlined in the PSA, TPDC are to appoint an independent specialist to assist the parties in reaching agreement on costs that are still subject to dispute. In 2014, prior to appointing an independent specialist, TPDC suspended the process. Subsequent to December 31, 2018 discussions on the disputed amounts resumed with TPDC based on a report published by the Attorney General. At the time of writing this report no independent specialist has been appointed. 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. Presently there are no formal disputes with TPDC regarding cost recovery.

Taxation

		Tax dispute	Disputed amounts $' 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.	1.0	0.7	1.7 (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).	28.9	13.8	42.7 (3)
VAT	2008-10	Output VAT on imported services and SSI Operatorship services.	2.7	2.8	5.5 (4)
			32.9	13.3	50.2

Management, with the advice from its legal counsels, has reviewed the Company's position on the objections and appeals related to the disputed amounts and has concluded that no provision is required with regard to these matters and that the maximum potential exposure is $50.2 million (December 31, 2018: $50.1 million).

(1) 2015 ($0.3 million): PAET appealed the Tax Revenue Appeals Board ("TRAB") ruling that PAET is liable to pay PAYE on grossed-up amounts on staff salaries. TRAB waived interest assessed thereon. The Tax Revenue Appeals Tribunal ("TRAT") upheld the TRAB decision which ruled in favour of the TRA on principal tax demanded but waived interest assessed thereon. In 2017 PAET appealed the TRAT ruling to the Court of Appeal of Tanzania ("CAT"). PAET is awaiting the CAT hearing date to be set;

(2) (a) 2005-2009 ($1.6 million): In 2016 TRA filed an application for review of the CAT decision in favour of PAET that no WHT was required on services performed outside Tanzania by non-resident persons 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 for their application, under the certificate of urgency, for the CAT to review its judgement. During Q1 2018 CAT ruled in favour of PAET's preliminary objection. In Q4 2018 the TRA applied to the CAT to file an application for review out of time but consequently withdrew its application at the time the Company was preparing to file a preliminary objection against the application. It is not clear whether the TRA will seek to re-file their application;

(b) 2010 ($0.1 million): TRAB is awaiting a ruling from the review by the CAT on the 2005-2009 case which would influence TRAB's decision on this matter accordingly;

(c) 2012-2015 ($0.0 million): TRA has assessed the Company for withholding tax for services not in the Company's records. Management has objected the assessment and is awaiting TRA response;

(3) (a) 2008 ($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 $1.8 million (with tax impact of $0.6 million). PAET has objected to the assessment for being time-barred, incorrect and arbitrary;

(b) 2009 ($2.6 million): In 2015 TRAB ruled against PAET with respect to timing of deductibility of capital expenditures and other expenses ($1.8 million). In Q2 2017 PAET lost an appeal at TRAT and in July 2018 lost an appeal at CAT. The Company has filed an application for review of the judgement and is awaiting CAT hearing date. In July 2017 TRA sent PAET an amended assessment claiming additional taxes, interest and penalties ($0.8 million). PAET has objected to the assessment for being time-barred and arbitrary and is awaiting a TRA response;

(c) 2010 ($2.4 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. The Company is awaiting a hearing date at TRAB;

(d) 2011 ($1.9 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 ($1.7 million). The Company is awaiting a hearing date at TRAB. 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 ($0.2 million) raised for the year;

(e) 2012 ($15.5 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 for payment of a deposit required for its objection to be admitted but was granted a partial waiver only. PAET appealed the decision demanding full waiver of the deposit and also filed an application for the stay of execution with TRAT in response to the TRA demand notice for payment of the deposit, as ruled by TRAB. TRAT upheld the TRAB decision for partial waiver. Aggrieved by the TRAT decision, the Company filed a Notice of Appeal with the Court of Appeal and is awaiting a hearing date;

(f) 2013 ($8.3 million): In 2016 PAET filed objections to a TRA assessment with respect to foreign exchange rate application and is awaiting a response. PAET received TRA's assessments for corporation tax ($1.9 million) which disallowed certain operating costs included in the tax returns and tax on repatriated income ($6.4 million). PAET has objected to the assessments due to them 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 now awaiting a hearing date at TRAB;

(g) 2014 ($11.0 million): In 2016 TRA issued an assessment of $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 now awaiting a hearing date at TRAB. TRA issued two additional assessments for the year for corporation tax of $4.7 million and tax on repatriated income $3.0 million. PAET has objected to the assessments and is awaiting TRA's response;

(h) 2015 ($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 ($5.4 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. The appeal was heard on November 1-2, 2018 and the parties are now awaiting the TRAB judgement; and

(b) 2012-2014 ($0.1 million): TRA issued an assessment for VAT on other income that PAET had paid. PAET has objected to the assessment and is awaiting TRA's response.

In 2016 TRA introduced significant changes in relation to the income tax treatment of the extractive sector with new separate chapters in Part V of the Income Tax Act 2004 ("ITA, 2004") for mining and for petroleum to be effective commencing in 2018. Subsequent to this, further changes were made by the Written Laws (Miscellaneous Amendments) Act, 2017 ("WLMAA, 2017") and in particular section 36(a)(ii) of the WLMAA, 2017. The WLMAA, 2017 amended section 65M and 65N of the ITA 2004 to exclude cost oil/cost gas from inclusion in both income and expenditure. The Company is still evaluating the tax effects of the changes as there are a number of uncertainties and ambiguities as to the interpretation and application of certain provisions of the WLMAA, 2017. In the absence of guidance on these matters and until the 2018 tax returns are finalized which the Company expects to occur in June 2019, the Company expects to use what it believes are reasonable interpretations and assumptions in applying the WLMAA, 2017 for purposes of determining its tax liabilities and results of operations, which may change as it receives additional clarification and implementation guidance. The Company does not expect a significant impact from the changes as the Company is able to recover taxes payable from TPDC Profit Gas entitlement under the terms of the PSA.

FUTURE ACCOUNTING CHANGES

New accounting policies

IFRS 16: Leases

Effective January 1, 2019, the Company has applied IFRS 16 using the modified retrospective approach, and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The implementation of the new policy has not resulted in any material changes to the Company's financial statements.

On transition to IFRS 16, the Company elected to apply the practical expedient to retain the assessment of which transactions are leases. IFRS 16 was applied only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed after January 1, 2019.

The preparation of the financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

i. incremental borrowing rate: The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest and depletion and depreciation expense, may differ due to changes in the market conditions and lease term.

ii. lease term: Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation assesses whether:

i. the contract involves the use of an identified asset; this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

ii. the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

iii. the Company has the right to direct the use of the asset. The Company has this right when it has the decision making rights that are most relevant to changing how and for what purpose the assets is used. In rare cases where the decision is predetermined, the Company has the right to direct the use of the asset if either:

    a. the Company has the right to operate the asset; or

    b. the Company designed the asset in a way that predetermines how and for what purpose it will be used.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of useful life of the right-of-use assets or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

i. fixed payments, including in-substance fixed payments;

ii. variable lease payments that depend on an index or rate, initially measured at the index or rate as at the commencement date;

iii. amounts expected to be payable under a residual value guarantee; and

iv. the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an option renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in the Condensed Consolidated Interim Statements of Comprehensive Income if the carrying amounts of the right-of-use asset has been reduced to nil.

Short-term leases and leases of low value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short term leases that have a term of twelve months or less and leases of low value assets. The Company recognizes the lease payments associated with these leases as an expense when incurred, over the lease term

DIVIDEND

On January 22, 2019 the Company declared a dividend of CDN$0.05 per share on each of its class A voting and class B subordinate voting shares for a total of $1.3 million payable to the holders of record as of March 31, 2019; the dividend was paid on April 30, 2019.

On January 18, 2018 the Company declared a dividend of CDN$0.60 per share on each of its Class A voting and Class B subordinate voting shares for a total of $16.9 million to holders of record as of January 31, 2018; the dividend was paid on February 7, 2018.

NON-CONTROLLING INTEREST

On January 16, 2018 the Company sold 7.9 per cent (7,933 Class A common shares) of its subsidiary, PAEM, to a wholly owned subsidiary of Swala for $15.4 million cash (net of closing adjustments) and $4.0 million of Swala convertible preference shares pursuant to a share purchase agreement. The preference shares entitle the Company to a 10% per annum distribution payable 15 days after each quarter end commencing from the closing date, January 16, 2018. Payment of the quarterly distributions is at the discretion of Swala based on funds available, however, the liability accrues if any amount is unpaid when due. If any distributable amount remains unpaid at December 31, 2021, the Company may demand settlement and Swala is obligated to comply by transferring and returning shares of PAEM sold to Swala; the aggregate value of these shares will equal to the amount of the outstanding distributions. As at March 31, 2019 the Company has not received any distributions or recorded any amount receivable related to the preference shares.

Swala is obligated to redeem 20% of the preference shares for cash annually starting December 31, 2021 until all shares are redeemed. If at any time Swala does not redeem in cash the required number of shares, Swala shall be obligated to redeem the preferred shares by transferring and returning shares of PAEM sold to Swala; the aggregate value of these shares will equal the amount of any outstanding redemption.

On March 31, 2019 the Company announced that, pursuant to the terms of an investment agreement dated December 29, 2017 with Swala in respect of any future sale of shares of PAEM, the parties agreed to terminate the investment agreement. PAEM share ownership will remain at 92.1% by Orca and 7.9% by Swala.

A reconciliation of the non-controlling interest is detailed below:

		AS AT
$'000	**MARCH 31, 2019**	DECEMBER 31, 2018
Balance, beginning of period	**471**	–
Recorded at the date of disposition	**–**	178
Share of post-acquisition income	**300**	273
Balance, end of period	**771**	471

SUMMARY QUARTERLY RESULTS

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

	2019	2018				2017		
Figures in $'000 except where otherwise stated	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial								
Revenue	**19,936**	13,460	15,124	14,959	14,223	10,619	15,287	16,810
Net income (loss) attributable to shareholders	**2,784**	2,751	2,637	12,493	(4,611)	(4,684)	(34)	(622)
Earnings (loss) per share – basic and diluted *($)*	**0.08**	0.08	0.07	0.35	(0.13)	(0.13)	(0.00)	(0.02)
Adjusted funds flow from operations [1]	**9,037**	6,398	5,130	4,752	2,975	62	4,361	5,380
Adjusted funds flow from operations per share – basic and diluted *($)*	**0.26**	0.18	0.15	0.14	0.08	0.00	0.12	0.16
Net cash flows from operating activities	**13,206**	4,085	10,483	12,657	1,527	12,882	14,447	12,038
Net cash flows per share - basic and diluted *($)*	**0.37**	0.12	0.30	0.36	0.04	0.37	0.41	0.35
Operating netback [1] *($/mcf)*	**2.48**	1.88	2.38	3.17	2.23	2.26	2.94	3.44
Working capital	**90,325**	84,182	79,955	72,129	65,201	69,575	71,129	73,854
Long-term loan	**53,943**	53,900	58,603	58,596	58,557	58,518	58,501	58,468
Shareholders' equity	**95,332**	93,702	91,336	89,018	76,636	78,731	82,426	82,407
Capital expenditures								
Geological and geophysical and well drilling	**–**	–	–	–	–	–	–	3
Pipeline and infrastructure	**1,085**	2,561	1,349	1,042	792	442	477	250
Other equipment	**7**	67	5	–	27	30	126	97
Total	**1,092**	2,628	1,354	1,042	819	472	603	350
Operating								
Additional Gas sold *(MMcf)*								
– industrial	**1,048**	1,194	994	1,294	1,251	1,110	1,285	1,158
– power	**4,472**	2,929	3,022	1,774	2,114	2,428	2,867	2,437
Total	**5,520**	4,123	4,016	3,068	3,365	3,538	4,152	3,595
Additional Gas sold *(MMcfd)*								
– industrial	**11.6**	13.0	10.8	14.2	13.9	12.1	14.0	12.7
– power	**49.7**	31.8	32.8	19.5	23.5	26.4	31.1	26.8
Total	**61.3**	44.8	43.6	33.7	37.4	38.5	45.1	39.5
Average price per mcf *($)*								
– industrial	**7.97**	8.44	9.23	7.80	7.79	7.78	7.65	7.69
– power	**3.43**	3.68	3.78	3.62	3.60	3.63	3.63	3.57
Weighted Average	**4.29**	4.31	5.12	5.39	5.16	4.93	4.87	4.90

[1] *See non-GAAP measures. Certain comparative period amounts for adjusted funds flow from operations have been reclassified to conform with the current period presentation.*

PRIOR EIGHT QUARTERS

The amount of revenue recorded from Q2 2017 to Q1 2018 has been impacted by the Company recording in revenue a percentage of gas delivered to TANESCO. The amount recorded in revenue was based on the expected amount to be collected due to the poor payment history during the previous three years. Since the start of Q1 2018 the Company has been recording 100% of gas deliveries to TANESCO in revenue as a result of the improved TANESCO payment history during the previous 24 months. The above resulted in a net revenue reduction of $0.8 million in Q2 2017, a net revenue increase of $1.8 million in Q3 2017, a net revenue increase of $1.0 million in Q4 2017 and a net revenue increase of $1.6 million in Q1 2018.

Despite an increase in sales volumes from Q2 2017 to Q3 2017, revenue fell due to a combination of a decrease in the current income tax adjustment and the depletion of the cost pool during the quarter. Revenue fell in Q4 2017 due to the combination of a 15% fall in sales volumes, a substantial increase in TPDC share of Profit Gas and a negative current income tax adjustment. The increase in revenue from Q4 2017 to Q1, Q2, and Q3 2018 was also impacted by the reversal of TANESCO deferred revenue to income during Q1, Q2, and Q3 2018 as a result of the improved TANESCO payment history. The increase in revenue from Q4 2018 to Q1 2019 was positively impacted by a significant increase in deliveries to TANESCO and a positive current income tax adjustment as a consequence of recording a profit in the period.

The following significant factors affected net income attributable to shareholders in addition to changes in revenue:

- The increase in Q2 2018 resulted from the reversal of the provision for doubtful accounts against TANESCO and the corresponding increase in finance income of $13.4 million. The $2.6 million net income attributable to shareholders in Q3 2018 is a result of selling 43.6 MMcfd of Additional Gas, the first time the sales volumes have been over 40 MMcfd since Q3 2017, together with the reversal of a provision for doubtful accounts against TANESCO resulting in an increase in finance income of $1.4 million. The increases in Q4 2018 and Q1 2019 to $2.8 million were primarily due to increases in sales volumes.
- The Company recorded an interest expense of $2.3 million in Q2 2017, $2.9 million in Q3 2017, $2.6 million in Q4 2017, $4.7 million in Q1 2018, $2.1 million in Q2 2018, $2.3 million in Q3 2018, $1.9 million in Q4 2018, and $2.4 million in Q1 2019. The increase in Q1 2018 primarily relates to the participatory interest payable as a result of the sale of a non-controlling interest in PAEM in accordance with the terms of the IFC loan.
- Changes in stock based compensation due to fluctuations in the Company share price and issuance of new RSUs:
    - Q2 2017: Charge of $1.6 million predominately the result of the issuance of 1,143,255 RSUs. The share price closed at CDN$4.01.
    - Q3 2017: Charge of $2.1 million, share price closed at CDN$4.60.
    - Q4 2017: Charge of $2.1 million, share price closed at CDN$5.00.
    - Q1 2018: Charge of $4.6 million as a result of the exercise of both stock appreciation rights and restrictive stock units at prices as high at CDN$6.70 as the share price increased during the quarter with the sale of the non-controlling interest in PAEM. The share price closed at CDN$5.50.
    - Q2 2018: Charge of $0.4 million, share price closed at CDN$5.28.
    - Q3 2018: No significant charge in the quarter, share price closed at CDN$5.69. Share price increase was offset by the forfeiture of 100,000 SARs.
    - Q4 2018: Credit of $0.4 million as a consequence of the decline in the share price to CDN$5.05.
    - Q1 2019: Charge of $0.05 million, share price closed at CDN$4.95.

Differences in adjusted funds flow from operations for the last eight quarters were primarily a result of changes in revenue during the periods. The decrease in adjusted funds flow from operations from Q2 2017 to Q3 2017 is a result 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 from Q3 2017 to Q4 2017 is a combination of the fall in revenue, the increase in stock based compensation costs offset by a lower recovery of deferred taxation in the period. The increase from Q1 2018 to Q2 2018 is primarily a due to the continuing consistent payments from TANESCO resulting in a combination of recording 100% of TANESCO deliveries as revenue in Q2 together with recording the TANESCO deferred revenue balance as revenue for the period. The increase was partially offset by the increase in TPDC profit share. The increase from Q3 to Q4 2018 is predominately related to the reduction in the level of provision against the Songas operatorship. The increase from Q4 2018 to Q1 2019 is related to the increase in revenue.

Changes in net cash flows from operating activities between quarters were primarily a result of the timing and amount of payments received from TANESCO plus the factors noted above impacting net income and adjusted funds flow from operations. There was a general increase in cash flow from operating activities from Q2 2017 to Q4 2017 as TANESCO payments became regular and were normally in excess of gas deliveries. A large decrease occurred in Q1 2018, primarily due to the large stock based compensation paid in the quarter and the additional participating interest expense. The results for Q2 2018 were again consistent with the quarterly results in 2017 with lower sales being offset by an increase in collections from TANESCO. Decreases in Q3 2018 and Q4 2018 are a combination of changes in non-cash working capital following a payment of TPDC Profit Gas entitlement during the quarter along with the marginal decrease in revenue offset by savings in general administrative expenses. The increase from Q4 2018 to Q1 2019 is primarily a result of the increase in revenue from quarter to quarter.

The level of working capital between Q2 2017 and Q3 2017 remained fairly consistent at an average of $72.4 million. The fall in working capital to $69.6 million in Q4 2017 is the result of the increased liabilities associated with the IFC loan and TPDC Profit Gas entitlement, offsetting the increased collections from TANESCO. The decrease in working capital between Q4 2017 and Q1 2018 from $69.6 million to $65.2 million is primarily due to the increase in stock-based compensation payments between periods. The increase in working capital between Q1 2018 and Q2 2018 is a result of the improved collections from TANESCO resulting in zero deferred revenue being carried in current liabilities. The increase in working capital between Q2 2018 to Q1 2019 is a result of the continued collection of TANESCO long-term arrears and the reduction in the level of long-term bonds from $7.2 million in Q2 2018 to $3.8 million in Q3 2018 and to $ nil in Q4 2018 and in Q1 2019.

Capital expenditure for the last four quarters amounted to $6.1 million compared to $2.2 million from Q2 2017 to Q1 2018. The capital expenditures in the four quarters ending Q1 2019 primarily relate to the completion of the SS-12 well flow line and the work on the refrigeration project on Songo Songo Island.

The level of Industrial sales volumes in the four quarters ending Q1 2019 averaged of 1,133 MMcf (four quarters ending Q1 2018: 1,201 MMcf) with total Industrial sales volumes for the four quarters ending Q1 2019 decreasing to 4,530 MMcf (12.4 MMcfd) compared to 4,804 MMcf (13.2 MMcfd) in the four quarters ending Q1 2018. The decrease is primarily a result of a planned maintenance at a cement plant.

The level of Power sales volumes increased by 24% in the four quarters ending Q1 2019 to an average of 3,049 MMcf (four quarters ending Q1 2018: 2,462 MMcf) with total Power sector sales volumes for the four quarters ending Q1 2019 increasing to 12,197 MMcf (33.5 MMcfd) compared to 9,846 MMcf (27.0 MMcfd) in the four quarters ending Q1 2018. The increase is the result of higher offtakes by TANESCO, primarily in Q4 2018 and Q1 2019.

BUSINESS RISKS

See "Business Risks" in the MD&A for the year ended December 31, 2018 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 its efforts to meet its current commitments or arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from treasury of the Company, control of the Company may change and shareholders may suffer additional dilution.

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

Collectability of Receivables

The Company evaluates the collectability of its receivables on the basis of payment history, frequency and predictability, as well as Management's assessment of the customer's willingness and ability to pay. The Company has been impacted by TANESCO's inability to pay for current deliveries and pay down arrears since 2012.

Prior to 2017 TANESCO payments had been inconsistent and resulted in the Company recording provisions for doubtful accounts for amounts outstanding from TANESCO for more than 60 days. Commencing the last quarter of 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 payment history with 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 percentage used to recognize TANESCO revenue is reviewed on at least a semi-annual basis, more frequently if circumstances require, and if there is a significant difference between the amounts of revenue recorded and amounts received; the percentage used to record revenue as well as any existing receivable or deferred revenue balance is revised accordingly. The percentage was increased effective October 1, 2017, January 1, 2018 and April 1, 2018 to reflect the most recent three-year payment history for TANESCO compared with amounts invoiced for deliveries. For the past four quarters the Company has recorded 100% of TANESCO deliveries as revenue as receipts from TANESCO continue to be in excess of invoices for gas deliveries.

At March 31, 2019 the current receivable from TANESCO was $0.6 million (December 31, 2018: $ nil). The long-term trade receivable at March 31, 2019 was $58.5 million with a provision of $58.5 million (December 31, 2018: $58.5 million with a provision of $58.5 million). Subsequent to March 31, 2019 the Company has invoiced TANESCO $5.6 million for April 2019 gas deliveries and TANESCO has paid the Company $9.2 million.

As at March 31, 2019 Songas owed the Company $8.7 million (December 31, 2018: $9.0 million) while the Company owed Songas $1.9 million (December 31, 2018: $2.2 million). The amounts due to the Company are mainly for sales of gas of $2.4 million (December 31, 2018: $2.5 million) and for the operation of the gas plant of $6.3 million (December 31, 2018: $6.5 million) against which the Company has made a provision for doubtful accounts of $3.7 million (December 31, 2018: $3.7 million). The amounts due to Songas primarily relate to pipeline tariff charges of $1.6 million (December 31, 2018: $1.8 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis.

Access to Songas processing and transportation

Although the Company operates the Songas gas processing plant, Songas is the owner of the plant, the 12-inch subsea and the 16-inch surface pipeline systems which transports natural gas from Songo Songo to Dar es Salaam. The Company's ability to deliver gas to its customers in Dar es Salaam is dependent upon it having access to the Songas infrastructure. Although there are agreements with Songas to allow the Company to process and transport gas, there is no assurance that these rights could not be challenged or curtailed by Songas. The inability to access the Songas plant and processing facilities would materially impair the Company's ability to realize revenue from natural gas sales. This risk is mitigated to a significant extent as the completion of the NNGI at Songo Songo Island, provides a second option to deliver and sell Additional Gas.

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 delivery pressure requirements). There remains a disagreement as to the current status of the Re-Rating Agreement and 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 signing of AGP2 by PAET, Songas and TPDC with approval of the MoE 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 and the natural gas mid and downstream value chains. 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 15, 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. 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 are dealt with in a proposed Insufficiency Agreement ("IA"). The ARGA was initialed by all parties but both the ARGA and IA remain unsigned as at the date of this report. In certain respects, the parties thereto are conducting themselves as though the ARGA is in effect. Management does not foresee a material risk with the conduct of the Company's business with an unsigned ARGA at this time.

NON-GAAP MEASURES

The Company evaluates its performance using 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.

- Adjusted funds flow from operations represents net cash flows from operating activities less interest expense and before changes in non-cash working capital. Management uses this is a performance measure that represents the company's ability to generate sufficient cash flow to fund capital expenditures and/or service debt.

	THREE MONTHS ENDED MARCH 31	
$'000	**2019**	2018
Net cash flows from operating activities	**13,206**	1,527
Interest expense	**(2,397)**	(4,676)
Changes in non-cash working capital	**(1,772)**	6,124
Adjusted funds flow from operations	**9,037**	2,975

The Company's adjusted funds flow from operations for the quarter ended March 31, 2019 was $9.0 million (Q1 2018: $3.0 million). The increase is primarily a combination of the increase in revenue which was driven by increased sales volumes offset slightly by reduced gas prices.

- 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.
- Adjusted funds flow from operations per share is calculated on the basis of the adjusted funds flow 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.

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, 2018. See "Critical Accounting Estimates and Judgements" in the MD&A for the year ended December 31, 2018 for a complete discussion.

Critical judgements in applying accounting policies:

A. 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 prior to 2017, management of the Company modified its approach to revenue recognition as it relates to TANESCO only. The Company records 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 percentage used to recognize TANESCO revenue will be reviewed as 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. Currently, given the consistent payment pattern from TANESCO, 100% of invoices for gas deliveries was recognized as revenue for the past four quarters.

B. Financial instrument classification and measurement

TThe 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.

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 TPDC future back-in rights on the economic terms of the PSA; ability to meet all conditions under the IFC financing agreement; the Company's estimated spending for the planned Development Program for 2019, which includes the tie-in of wells to processing facilities, well workovers and installation of a refrigeration unit on the Songas processing facility to ensure gas production can continue at the requisite specification and volumes and enable production through the NNGI ; the potential impact of the 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 ARGA will continue to conduct themselves in accordance with the ARGA until a new gas sales agreement is signed; the Company's expectation that, despite the Re-Rating Agreement of the gas processing plant owned by Songas having expired, the Songas gas processing plant production volumes will not be restricted; the anticipated effect of the Second AGP2 signed in 2017 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 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 NNGI from third parties will replace all or a portion of the volumes currently nominated by TANESCO under the 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 licence; 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 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 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 as a result of the implementation of the new government policies for the oil and gas industry; 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 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 new GSA; 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 successfully negotiate agreements; receipt of required regulatory approvals; the ability of the Company to increase production as required to meet demand; 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.

ORCA EXPLORATION GROUP INC.

Q1 2019 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-month period ended March 31, 2019.

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

ORCA EXPLORATION GROUP INC. *$'000*	Note	THREE MONTHS ENDED MARCH 31 **2019**	 2018
Revenue	*6, 7*	**19,936**	14,223
Production, distribution and transportation		**(2,878)**	(2,789)
Net production income		**17,058**	11,434
Operating expenses			
General and administrative		**(3,538)**	(3,521)
Stock based compensation	*13*	**(43)**	(4,629)
Depletion	*10*	**(3,492)**	(2,021)
Finance income	*8*	**671**	237
Finance expense	*8*	**(2,827)**	(5,323)
Income (loss) before tax		**7,829**	(3,823)
Income tax expense - current		**(2,674)**	(391)
Income tax (expense) recovery - deferred		**(379)**	350
Additional Profits Tax		**(1,692)**	(774)
Net income (loss)		**3,084**	(4,638)
Net (income) loss attributable to non-controlling interest		**(300)**	27
Net income (loss) attributable to shareholders		**2,784**	(4,611)
Foreign currency translation gain from foreign operations		**18**	68
Comprehensive income (loss)		**2,802**	(4,543)
Net income (loss) attributable to shareholders per share *($)*			
Basic and diluted	*14*	**0.08**	(0.13)

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Financial Position (unaudited)

ORCA EXPLORATION GROUP INC.

$'000	Note	AS AT MARCH 31, 2019	DECEMBER 31, 2018
Assets			
Current assets			
Cash and cash equivalents		**40,372**	64,660
Investment in short-term bonds	*8*	**101,119**	66,837
Trade and other receivables	*9*	**14,857**	15,862
Prepayments		**898**	1,217
		157,246	148,576
Non-current assets			
Long-term receivables	*9*	**2,464**	2,424
Investments	*19*	**3,967**	3,967
Property, plant and equipment	*10*	**105,035**	107,474
		111,466	113,865
Total assets		**268,712**	262,441
Equity and liabilities			
Current liabilities			
Trade and other payables	*11*	**61,133**	59,634
Tax payable		**1,028**	–
Current portion of long-term loan	*12*	**4,760**	4,760
		66,921	64,394
Non-current liabilities			
Deferred income taxes		**13,207**	12,828
Long-term loan	*12*	**53,943**	53,900
Additional Profits Tax		**39,309**	37,617
		106,459	104,345
Total liabilities		**173,380**	168,739
Equity			
Capital stock	*13*	**86,508**	86,508
Contributed surplus		**6,319**	6,319
Accumulated other comprehensive loss		**(230)**	(248)
Accumulated income		**1,964**	652
Non-controlling interest	*19*	**771**	471
		95,332	93,702
Total equity and liabilities		**268,712**	262,441

See accompanying notes to the condensed consolidated interim financial statements.
Nature of operations (Note 1); Contractual obligations and committed capital investments (Note 16); Contingencies (Note 17).

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

ORCA EXPLORATION GROUP INC.

$'000	Note	THREE MONTHS ENDED MARCH 31 2019	2018
Operating activities			
Net Income (loss)		**3,084**	(4,638)
Adjustment for:			
Depletion and depreciation	*10*	**3,531**	2,070
Indirect tax	*8*	**338**	264
Stock based compensation expense	*13*	**43**	4,629
Deferred income taxes expense (recovery)		**379**	(350)
Additional Profits Tax		**1,692**	774
Unrealized (gain) loss on foreign exchange		**(30)**	226
Interest expense	*8*	**2,397**	4,676
Change in non-cash operating working capital	*18*	**1,772**	(6,124)
Net cash flows from operating activities		**13,206**	1,527
Investing activities			
Property, plant and equipment expenditures	*10*	**(1,092)**	(819)
Change in non-cash working capital		**(397)**	8
Net cash used in investing activities		**(1,489)**	(811)
Financing activities			
Investment in bonds, net	*8*	**(34,282)**	–
Interest paid, net	*8*	**(1,543)**	(1,538)
Participatory interest paid	*8*	**–**	(2,578)
Proceeds on sale of interest in a subsidiary	*19*	**–**	15,691
Dividends paid to shareholders	*13*	**–**	(16,866)
Dividends paid to non-controlling interest		**(159)**	–
Net cash flow used in financing activities		**(35,984)**	(5,291)
Decrease in cash		**(24,267)**	(4,575)
Cash and cash equivalents at the beginning of the period		**64,660**	122,322
Effect of change in foreign exchange on cash for the period		**(21)**	66
Cash and cash equivalents at the end of the period		**40,372**	117,813

See accompanying notes to the condensed consolidated interim financial statements.

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

ORCA EXPLORATION GROUP INC. *$'000*	Capital stock	Contributed surplus	Cumulative translation adjustment	Accumulated loss	Non-controlling interest	Total
Note	*13*			*13*	*19*	
Balance as at December 31, 2018	86,508	6,319	(248)	652	471	93,702
Dividend declared	–	–	–	(1,313)	–	(1,313)
Foreign currency translation adjustment on foreign operations	–	–	18	–	–	18
Net income	–	–	–	2,784	300	3,084
Dividend declared non-controlling interest	–	–	–	(159)	–	(159)
Balance as at March 31, 2019	**86,508**	**6,319**	**(230)**	**1,964**	**771**	**95,332**

$'000	Capital stock	Contributed surplus	Cumulative translation adjustment	Accumulated loss	Non-controlling interest	Total
Note	*13*			*13, 19*	*19*	
Balance as at December 31, 2017	86,508	6,319	(165)	(13,931)	–	78,731
Dividend declared	–	–	–	(16,866)	–	(16,866)
Foreign currency translation adjustment on foreign operations	–	–	68	–	–	68
Net loss	–	–	–	(4,611)	(27)	(4,638)
Gain on sale of interest in a subsidiary	–	–	–	19,163	–	19,163
Non-controlling interest recorded at date of acquisition	–	–	–	–	178	178
Balance as at March 31, 2018	86,508	6,319	(97)	(16,245)	151	76,636

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. 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, and 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 March 31, 2019 and for the three months ended March 31, 2019 comprise accounts of the Company and all its wholly and majority owned subsidiaries (collectively, the "Company" or "Orca Exploration") and were authorized for issue in accordance with a resolution of the directors on May 16, 2019.

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").

The Tanzania Electric Supply Company Limited ("TANESCO") is a parastatal organization which is wholly-owned by the Government of Tanzania, with oversight by the Ministry of Energy ("MoE"), previously known as the Ministry of Energy and Minerals ("MEM"). TANESCO is responsible for the majority of 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. TANESCO 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

Basis of measurement

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 ("$") unless otherwise stated.

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, 2018.

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, 2018. There have been no changes in accounting policies for the three-month period ended March 31, 2019 and the policies have been applied consistently to all periods presented in the condensed consolidated interim financial statements, except as noted below:

IFRS 16 – Leases

Effective January 1, 2019, the Company has applied IFRS 16 using the modified retrospective approach, and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The implementation of the new policy has not resulted in any material changes to the Company's financial statements.

On transition to IFRS 16, the Company elected to apply the practical expedient to retain the assessment of which transactions are leases. IFRS 16 was applied only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed after January 1, 2019.

The preparation of the financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

i. incremental borrowing rate: The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest and depletion and depreciation expense, may differ due to changes in the market conditions and lease term.

ii. lease term: Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation assesses whether:

i. the contract involves the use of an identified asset; this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

ii. the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

iii. the Company has the right to direct the use of the asset. The Company has this right when it has the decision making rights that are most relevant to changing how and for what purpose the assets is used. In rare cases where the decision is predetermined, the Company has the right to direct the use of the asset if either:

a. the Company has the right to operate the asset; or

b. the Company designed the asset in a way that predetermines how and for what purpose it will be used.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of useful life of the right-of-use assets or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

i. fixed payments, including in-substance fixed payments;

ii. variable lease payments that depend on an index or rate, initially measured at the index or rate as at the commencement date;

iii. amounts expected to be payable under a residual value guarantee; and

iv. the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an option renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in the Condensed Consolidated Interim Statements of Comprehensive Income if the carrying amounts of the right-of-use asset has been reduced to nil.

Short-term leases and leases of low value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short term leases that have a term of twelve months or less and leases of low value assets. The Company recognizes the lease payments associated with these leases as an expense when incurred, over the lease term.

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 interim 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, 2018.

See Note 4 of the audited consolidated financial statements for the year ended December 31, 2018 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, 2019 and December 31, 2018 provisions exist against the long-term TANESCO receivable, the provision for gas plant operations charges and capital expenditure receivables from Songas and the provision of $0.5 million for one industrial customer. No write-off any receivables occurred during the quarter (see Note 9).

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 gas to some of the TANESCO power plants. The contracts with Songas and TANESCO accounted for 65% of the Company's gross field revenue operating revenue during quarter and $3.0 million of the short and long-term receivables at March 31, 2019.

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

B. Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its liabilities. Cash forecasts identifying liquidity requirements of the Company are produced on a regular basis. These are reviewed to ensure sufficient funds exist to finance the Company's current operational and investment cash flow requirements. At March 31, 2019 the Company has working capital of $90.3 million which is net of $66.9 million of financial liabilities. With regards to current liabilities, $40.9 million is due within one to three months, nil is due within three to six months, and $26.0 million is due within six to twelve months (see Note 11).

At the end of the year approximately 65% of the current liabilities relate to TPDC (see Note 11). 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. A large proportion of the TPDC liability is associated with the long-term TANESCO arrears and payments to TPDC are made when cash is received for the arrears.

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 natural gas and exploration assets in Tanzania and had exploration and appraisal interests in Italy.

	THREE MONTHS ENDED MARCH 31					
			2019			2018
$'000	**Italy**	**Tanzania**	**Total**	Italy	Tanzania	Total
External revenue	**–**	**19,936**	**19,936**	–	14,223	14,223
Segment net (loss) income [(1)]	**(6)**	**3,090**	**3,084**	66	(4,704)	(4,638)
Finance income [(2)]	**–**	**671**	**671**	–	237	237
Indirect tax [(2)]	**–**	**338**	**338**	–	264	264
Interest expense [(2)]	**–**	**2,397**	**2,397**	–	4,676	4,676
Capital additions	**–**	**1,092**	**1,092**	–	819	819
Depletion & depreciation	**–**	**3,531**	**3,531**	–	2,070	2,070

						AS AT
			MARCH 31, 2019			DECEMBER 31, 2018
$'000	**Italy**	**Tanzania**	**Total**	Italy	Tanzania	Total
Total assets	**732**	**267,980**	**268,712**	748	261,693	262,441
Total liabilities	**9**	**173,371**	**173,380**	16	168,723	168,739

(1) *The income in Italy relates to foreign exchange gains on the euro cash balances held in country.*
(2) *See Note 8.*

7 REVENUE

	THREE MONTHS ENDED MARCH 31	
$'000	**2019**	2018
Industrial sector	**8,351**	9,747
Power sector	**15,340**	11,782
Gross field revenue	**23,691**	21,529
TPDC share of revenue	**(7,043)**	(7,038)
Company operating revenue	**16,648**	14,491
Current income tax adjustment	**3,288**	(268)
Revenue	**19,936**	14,223

Historically the Company has recorded a percentage of the amounts invoiced to TANESCO for revenue recognition purposes determined by comparison of TANESCO's payment history to the amounts invoiced by the Company. Since April 1, 2018 the Company has recognized 100% of amounts invoiced for deliveries as revenue.

The Company sells its natural gas to power customers (TANESCO and Songas) and one industrial customer (a cement manufacturer) pursuant to fixed-price contracts. Sales to other industrial customers are at fixed priced discounts (subject to certain floors and ceilings) to the lowest alternative fuel source in Dar es Salaam, Heavy Fuel Oil ("HFO") and coal. Under all contracts, the Company is required to deliver volumes of natural gas to the contract counterparty. Natural gas revenue is recognized when the Company gives up control of the natural gas which occurs at metering points located at the inlets to customers' facilities. The amount of production revenue recognized is based on the agreed transaction price and the volumes delivered.

The Company has entered into contracts with customers with terms ranging from four to eight years.

8 FINANCE INCOME AND EXPENSE

Finance income

	THREE MONTHS ENDED MARCH 31	
$'000	**2019**	2018
Interest income	**84**	237
Investment income	**587**	–
	671	237

At March 31, 2019 the Company had $101.1 million invested in US dollar short-term bonds with maturity dates from April 2019 to March 2020 and a range of interest rates from 0.875% to 2.25% (December 31, 2018: $66.8 million with maturity dates from March 2019 to December 2019 and a range of interest rates from 0.875% to 2.125%). The $0.6 million investment income for the quarter ended March 31, 2019 includes accrued interest of $0.3 million and amortization of the discount on the acquisition of the bonds of $0.3 million. The Company's intent is to hold the bond investments to maturity; however, the bonds are highly liquid by their nature and may readily be converted into cash if necessary.

Finance expense

	THREE MONTHS ENDED MARCH 31	
$'000	**2019**	2018
Base interest expense	**1,543**	1,538
Participatory interest expense	**854**	3,138
Interest expense	**2,397**	4,676
Net foreign exchange loss	**92**	383
Indirect tax	**338**	264
	2,827	5,323

Base interest expense and participatory interest expense relate to the long-term loan with the International Finance Corporation ("IFC"). The base interest expense during the quarter was $1.5 million (Q1 2018: $1.5 million). The participatory interest expense during the quarter was $0.9 million (Q1 2018: $3.1 million); the decrease is related to an additional payment of $2.6 million in Q1 2018 associated with the sale of a 7.9% interest in PAEM in January 2018 (see Notes 12 and 19).

The indirect tax of $0.3 million for the quarter (Q1 2018: $0.3 million) is VAT associated with invoices to TANESCO for interest on late payments. These invoices are not recognized in the financial statements as they do not meet revenue recognition criteria with respect to assurance of collectability (see Note 9).

9 TRADE AND OTHER RECEIVABLES

Current receivables

	AS AT	
$'000	**MARCH 31, 2019**	DECEMBER 31, 2018
Trade receivables		
Songas	**2,358**	2,489
TANESCO	**553**	–
Industrial customers	**8,112**	9,107
Less provision for doubtful accounts	**(452)**	(452)
	10,571	11,144
Other receivables		
Songas gas plant operations	**6,297**	6,496
Other	**1,704**	1,937
Less provision for doubtful accounts	**(3,715)**	(3,715)
	4,286	4,718
	14,857	15,862

Long-term trade receivables

	AS AT	
$'000	**MARCH 31, 2019**	DECEMBER 31, 2018
TANESCO receivable	**58,498**	58,498
Provision for doubtful accounts	**(58,498)**	(58,498)
Net TANESCO receivable	**–**	–
VAT Songas workovers	**2,205**	2,205
Lease deposit	**259**	219
	2,464	2,424

TANESCO

At March 31, 2019 the current receivable from TANESCO was $0.6 million (December 31, 2018: $ nil). The TANESCO long-term trade receivable at March 31, 2019 and December 31, 2018 was $58.5 million (provision of $58.5 million). Subsequent to March 31, 2019, the Company has invoiced TANESCO $5.6 million for April 2019 gas deliveries and TANESCO has paid the Company $9.2 million.

Songas

As at March 31, 2019 Songas owed the Company $8.7 million (December 31, 2018: $9.0 million) while the Company owed Songas $1.9 million (December 31, 2018: $2.2 million). The amounts due to the Company are mainly for sales of gas of $2.4 million (December 31, 2018: $2.5 million) and for the operation of the gas plant of $6.3 million (December 31, 2018: $6.5 million) against which the Company has made a provision for doubtful accounts of $3.7 million (December 31, 2018: $3.7 million). The amounts due to Songas primarily relate to pipeline tariff charges of $1.6 million (December 31, 2018: $1.8 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis.

10 PROPERTY, PLANT AND EQUIPMENT

$'000	Oil and natural gas interests	Leasehold improvements	Computer equipment	Vehicles	Fixtures & fittings	Total
Costs						
As at December 31, 2018	210,010	699	1,544	449	1,168	213,870
Additions	1,085	–	7	–	–	1,092
As at March 31, 2019	**211,095**	**699**	**1,551**	**449**	**1,168**	**214,962**
Accumulated depletion and depreciation						
As at December 31, 2018	102,753	699	1,409	409	1,126	106,396
Depletion and depreciation	3,492	–	22	13	4	3,531
As at March 31, 2019	**106,245**	**699**	**1,431**	**422**	**1,130**	**109,927**
Net book values						
As at December 31, 2018	107,257	–	135	40	42	107,474
As at March 31, 2019	**104,850**	**–**	**120**	**27**	**38**	**105,035**

In determining the depletion charge, it is estimated that future development costs of $70.9 million (December 31, 2018: $72.0 million) will be required to bring the total proved reserves to production. The Company recorded depreciation of $0.04 million (Q1 2018: $0.05 million) in general and administrative expenses.

11 TRADE AND OTHER PAYABLES

	AS AT	
$'000	**MARCH 31, 2019**	DECEMBER 31, 2018
Songas	**1,555**	1,785
Other trade payables	**2,087**	2,725
Trade payables	**3,642**	4,510
TPDC Profit Gas entitlement, net	**39,440**	40,260
Accrued liabilities	**18,051**	14,864
	61,133	59,634

TPDC share of Profit Gas

	AS AT	
$'000	**MARCH 31, 2019**	DECEMBER 31, 2018
TPDC Profit Gas entitlement	**41,575**	40,606
Less "Adjustment Factor"	**(2,135)**	(346)
TPDC Profit Gas entitlement, net	**39,440**	40,260

Under the PSA revenue sharing mechanism, the Company is to adjust TPDC's Profit Gas share by the "Adjustment Factor". The Adjustment Factor is equal to the amount necessary to fully pay and discharge the PAET liability for taxes on income derived from Petroleum Operations.

12

LONG-TERM LOAN

The Company's subsidiary, PAET, entered into a loan agreement (the "Loan") in 2015 with the IFC, a member of the World Bank Group, for $60 million. The loan was fully drawn down in 2016.

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 $5 million starting April 15, 2022 and one final payment of $30 million due on April 15, 2025. 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 (December 14, 2015), 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 was initially guaranteed by the Company to a maximum of $30 million. The initial 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, at its discretion, may issue shares in fulfillment of all or part of the guarantee obligation in 2025. Pursuant to the sale of the non-controlling interest in PAEM, the Company agreed with the IFC to reduce the outstanding amount of the loan by the percentage interest sold in PAEM of 7.9% ($4.8 million) on the fourth anniversary of the first drawdown. The Company has provided an additional guarantee to the IFC that if PAET is unable to pay down the loan on or before December 14, 2019, the Company will make the payment. This guarantee is in addition to the Company's initial guarantee.

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 amount of base interest during the quarter was $1.5 million (Q1 2018: $1.5 million).

In addition, the Loan included an annual variable participatory interest equating to 7% of the net cash flow 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. The participatory interest charged during the quarter was $0.9 million (Q1 2018: $3.1 million). The participatory interest charged in Q1 2018 includes an additional payment of $2.6 million associated with the sale of a 7.933% interest in PAEM in January 2018 in accordance with the terms of the Loan. As a result of the additional payment, the annual variable participatory interest was reduced to 6.45%. For the quarter ended March 31, 2019 the participatory interest included in accrued liabilities is $3.1 million (December 31, 2018: $2.2 million).

Dividends and distributions from PAET to the Company are restricted at any time that any amounts due for interest, principal or participating interest are outstanding. All amounts owing under the Loan have been paid when due.

		AS AT
$'000	**MARCH 31, 2019**	DECEMBER 31, 2018
Loan principal	**60,000**	60,000
Deferred financing costs	**(1,297)**	(1,340)
Current portion of loan	**(4,760)**	(4,760)
	53,943	53,900

13 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:

	2019		
Number of shares	Authorised *(000)*	Issued *(000)*	Amount *($'000)*
Class A			
As at December 31, 2018 and March 31, 2019	**50,000**	**1,750**	**983**
Class B			
As at December 31, 2018 and March 31, 2019	**100,000**	**33,506**	**85,525**
First preference			
As at December 31, 2018 and March 31, 2019	**100,000**	**–**	**–**
Total Class A, Class B and first preference	**250,000**	**35,256**	**86,508**

All issued capital stock is fully paid.

Stock Appreciation Rights ("SARs")

	SARs *(000)*	Exercise Price *(CDN$)*
Outstanding as at December 31, 2018	645	2.30 to 3.87
Exercised	(233)	2.30 to 3.25
Outstanding as at March 31, 2019	**412**	**2.30 to 3.87**

The number outstanding, the weighted average remaining life and weighted average exercise prices of SARs at March 31, 2019 were as follows:

Exercise Price *(CDN$)*	Number outstanding *(000)*	Weighted average remaining contractual life *(years)*	Number exercisable *(000)*	Weighted average exercise price *(CDN$)*
2.30	172	0.75	172	2.30
3.02 to 3.25	120	1.17	–	3.02
3.87	120	3.76	30	3.87
2.30 to 3.87	**412**	**1.75**	**202**	**2.97**

Restricted Stock Units ("RSUs")

	RSUs *(000)*	Exercise Price *(CDN$)*
Outstanding as at December 31, 2018	88	0.001
Exercised	(63)	0.001
Outstanding as at March 31, 2019	**25**	**0.001**

The number outstanding, the weighted average remaining life and weighted average exercise prices of RSUs at March 31, 2019 were as follows:

Exercise Price *(CDN$)*	Number outstanding *(000)*	Number exercisable *(000)*	Weighted average remaining contractual life *(years)*
0.001	**25**	**25**	**3.04**

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 1.0%, stock volatility of 29.9% to 44.8%; 0% dividend yield; 5% forfeiture; a closing stock price of CDN$4.95 per share.

	AS AT	
$'000	**MARCH 31, 2019**	DECEMBER 31, 2018
SARs	**712**	1,196
RSUs	**103**	364
	815	1,560

As at March 31, 2019 a total accrued liability of $0.8 million (December 31, 2018: $1.6 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 $0.04 million (Q1 2018: $4.6 million) as stock based compensation.

On January 22, 2019 the Company declared a dividend of CDN$0.05 per share on each of its Class A voting and Class B subordinate voting shares for a total of $1.3 million to holders of record as of March 31, 2019 and paid April 30, 2019.

On January 18, 2018 the Company declared a dividend of CDN$0.60 per share on each of its Class A voting and Class B subordinate voting shares for a total of $16.9 million to holders of record as of January 31, 2018 paid on February 7, 2018.

14 EARNINGS PER SHARE

('000)	AS AT MARCH 31 2019	2018
Outstanding shares		
Weighted average number of Class A and Class B shares	**35,256**	35,256
Weighted average diluted number of Class A and Class B shares	**35,256**	35,256

The calculation of earnings per share is based on a net income attributable to shareholders for the quarter of $2.8 million (Q1 2018: $4.6 million net loss) and a weighted average number of Class A and Class B shares outstanding during the period of 35,256,432 (Q1 2018: 35,256,432).

15 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, 2019 $0.05 million (Q1 2018: $0.1 million) was incurred by this firm for services provided.

As at March 31, 2019 the Company has a total of $0.04 million (December 31, 2018: $0.04 million) recorded in trade and other payables in relation to the related parties.

16

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 ($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 (196.5 Bcf as at March 31, 2019). 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. In certain respects, the parties thereto are conducting themselves as though the ARGA is in effect. Management does not foresee a material risk with the conduct of the Company's business with an unsigned ARGA at this time.

Operating leases

The Company has three office rental agreements, one in Dar es Salaam, Tanzania and two in England, one in Winchester and one in London. The agreement in Dar es Salaam was entered into on November 1, 2015 and expires on October 31, 2019 at an annual rent of $0.4 million. The agreement in Winchester expires on September 25, 2022 at an annual rental of $0.2 million per annum however subsequent to March 31, 2019 the Company finalized an agreement to assign the lease and recognized a one-time settlement cost for the lease of $0.2 million. The lease of the London office is for a twelve-month period starting February 1, 2019 at $0.2 million per annum. The costs of the leases and the settlement cost are recognized in the general and administrative expenses.

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 provided 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 began work on the onshore component of Phase A of the Development Program in 2018 that includes the installation of a refrigeration unit at the Songas Gas processing plant with an estimated cost of $8.5 million and well workovers with an estimated cost of $13.6 million. A total of $0.9 million was incurred on the refrigeration project in Q1 2019 (2018: $4.2 million) which is scheduled for completion in Q2 2019. A portion of the workover costs are for wells SS-3 and SS-4 and assuming that Songas, the owner of the wells, funds the costs of these workovers the estimated cost to the Company will be $5.1 million.

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.

17 CONTINGENCIES

Upstream and downstream activities

The Petroleum Act, 2015 (the "Petroleum Act") provides TPDC with exclusive rights over the distribution of gas in Tanzania. The Petroleum Act has grandfathering provisions upholding the rights of the Company to develop and market natural gas produced under the PSA as it was signed prior to the Petroleum Act coming into effect in 2015. However, it is still unclear how the provisions of the Petroleum Act will be interpreted and implemented regarding upstream and downstream activities and the Company is uncertain regarding the potential impact on its business in Tanzania.

On October 7, 2016 the Government of Tanzania issued the Petroleum (Natural Gas Pricing) Regulation made under Sections 165 and 258 (I) of the Petroleum Act. Article 260 (3) of the Petroleum Act 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. The impact of the Natural Gas Pricing Regulation, if any, cannot be determined at this time.

Cost recovery

TPDC conducted an audit of the historic Cost Pool and in 2011 disputed approximately $34 million of costs that had been recovered from the Cost Pool from 2002 through to 2009. In 2014 a substantial portion of the disputed costs were agreed to be cost recoverable by TPDC. Under the dispute mechanism outlined in the PSA, TPDC are to appoint an independent specialist to assist the parties in reaching agreement on costs that are still subject to dispute. In 2014, prior to appointing an independent specialist, TPDC suspended the process. Subsequent to December 31, 2018 discussions on the disputed amounts resumed with TPDC based on the most recent report published by the Tanzanian Attorney General highlighting the lack of progress in resolving the long-standing dispute. At the time of writing this report no independent specialist has been appointed. 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 amount $' 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.	1.0	0.7	1.7 (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).	28.9	13.8	42.7 (3)
VAT	2008-10	Output VAT on imported services and SSI Operatorship services.	2.7	2.8	5.5 (4)
			32.9	17.3	50.2

Management, with the advice from its legal counsels, has reviewed the Company's position on the objections and appeals related to the disputed amounts and has concluded that no provision is required with regard to these matters and that the maximum exposure is $50.2 million (December 31, 2018: $50.1 million).

(1) *2015 ($0.3 million): PAET appealed the Tax Revenue Appeals Board ("TRAB") ruling that PAET is liable to pay PAYE on grossed-up amounts on staff salaries. TRAB waived interest assessed thereon. The Tax Revenue Appeals Tribunal ("TRAT") upheld the TRAB decision which ruled in favour of the TRA on principal tax demanded but waived interest assessed thereon. In 2017 PAET appealed the TRAT ruling to the Court of Appeal of Tanzania ("CAT"). PAET is awaiting the CAT hearing date to be set;*

(2) (a) *2005-2009 ($1.6 million): In 2016 TRA filed an application for review of the CAT decision in favour of PAET that no WHT was required on services performed outside Tanzania by non-resident persons 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 for their application, under the certificate of urgency, for the CAT to review its judgement. During Q1 2018 CAT ruled in favour of PAET's preliminary objection. In Q4 2018 the TRA applied to the CAT to file an application for review out of time but consequently withdrew its application at the time the Company was preparing to file a preliminary objection against the application. It is not clear whether the TRA will seek to re-file their application;*

(b) *2010 ($0.1 million): TRAB is awaiting a ruling from the review by the CAT on the 2005-2009 case which would influence TRAB's decision on this matter accordingly;*

(c) *2012-2015 ($0.0 million): TRA has assessed the Company for withholding tax for services not in the Company's records. Management has objected the assessment and is awaiting TRA response;*

(3) (a) *2008 ($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 $1.8 million (with tax impact of $0.6 million). PAET has objected to the assessment for being time-barred, incorrect and arbitrary;*

(b) *2009 ($2.6 million): In 2015 TRAB ruled against PAET with respect to timing of deductibility of capital expenditures and other expenses ($1.8 million). In Q2 2017 PAET lost an appeal at TRAT and in July 2018 lost an appeal at CAT. The Company has filed an application for review of the judgement and is awaiting CAT hearing date. In July 2017 TRA sent PAET an amended assessment claiming additional taxes, interest and penalties ($0.8 million). PAET has objected to the assessment for being time-barred and arbitrary and is awaiting a TRA response;*

(c) *2010 ($2.4 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. The Company is awaiting a hearing date at TRAB;*

(d) *2011 ($1.9 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 ($1.7 million). The Company is awaiting a hearing date at TRAB. 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 ($0.2 million) raised for the year;*

(e) *2012 ($15.5 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 for payment of a deposit required for its objection to be admitted but was granted a partial waiver only. PAET appealed the decision demanding full waiver of the deposit and also filed an application for the stay of execution with TRAT in response to the TRA demand notice for payment of the deposit, as ruled by TRAB. TRAT upheld the TRAB decision for partial waiver. Aggrieved by the TRAT decision, the Company filed a Notice of Appeal with the Court of Appeal and is awaiting a hearing date;*

(f) *2013 ($8.3 million): In 2016 PAET filed objections to a TRA assessment with respect to foreign exchange rate application and is awaiting a response. PAET received TRA's assessments for corporation tax ($1.9 million) which disallowed certain operating costs included in the tax returns and tax on repatriated income ($6.4 million). PAET has objected to the assessments due to them 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 now awaiting a hearing date at TRAB;*

(g) *2014 ($11.0 million): In 2016 TRA issued an assessment of $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 now awaiting a hearing date at TRAB. TRA issued two additional assessments for the year for corporation tax of $4.7 million and tax on repatriated income $3.0 million. PAET has objected to the assessments and is awaiting TRA's response;*

(h) *2015 ($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 ($5.4 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. The appeal was heard on November 1-2, 2018 and the parties are now awaiting for the TRAB judgement; and*

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

In 2016 TRA introduced significant changes in relation to the income tax treatment of the extractive sector with new separate chapters in Part V of the Income Tax Act 2004 ("ITA, 2004") for mining and for petroleum to be effective commencing in 2018. Subsequent to this, further changes were made by the Written Laws (Miscellaneous Amendments) Act, 2017 ("WLMAA, 2017") and in particular section 36(a)(ii) of the WLMAA, 2017. The WLMAA, 2017 amended section 65M and 65N of the ITA 2004 to exclude cost oil/cost gas from inclusion in both income and expenditure. The Company is still evaluating the tax effects of the changes as there are a number of uncertainties and ambiguities as to the interpretation and application of certain provisions of the WLMAA, 2017. In the absence of guidance on these matters and until the 2018 tax returns are finalized which the Company expects to occur in June 2019, the Company expects to use what it believes are reasonable interpretations and assumptions in applying the WLMAA, 2017 for purposes of determining its tax liabilities and results of operations, which may change as it receives additional clarification and implementation guidance. The Company does not expect a significant impact from the changes as the Company is able to recover taxes payable from TPDC Profit Gas entitlement under the terms of the PSA.

18 CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	THREE MONTHS ENDED MARCH 31	
$'000	**2019**	2018
Decrease (increase) in trade and other receivables	**656**	(1,109)
Decrease (increase) in prepayments	**319**	(78)
Increase in trade and other payables	**(191)**	(3,343)
Increase (decrease) in tax payable	**1,028**	(1,607)
(Increase) decrease in long-term receivables	**(40)**	13
	1,772	(6,124)

19 NON-CONTROLLING INTEREST

On January 16, 2018 the Company sold 7.9 per cent (7,933 Class A common shares) of its subsidiary, PAEM, to a wholly owned subsidiary of Swala Oil & Gas (Tanzania) plc. ("Swala") for $15.7 million cash (net of closing adjustments) and $4.0 million of Swala convertible preference shares pursuant to a share purchase agreement. The preference shares were issued to the Company on June 18, 2018 and entitle the Company to a 10% per annum distribution payable 15 days after each quarter end commencing from the closing date, January 16, 2018. Payment of the quarterly distributions is at the discretion of Swala based on funds available, however, the liability accrues if any amount is unpaid when due. If any distributable amount remains unpaid at December 31, 2021, the Company may demand settlement and Swala is obligated to comply by transferring and returning shares of PAEM sold to Swala; the aggregate value of these shares will equal to the amount of the outstanding distributions. As at March 31, 2019 the Company has not received any distributions or recorded any amount receivable related to the preference shares.

Swala is obligated to redeem 20% of the preference shares for cash annually starting December 31, 2021 until all shares are redeemed. If at any time Swala does not redeem in cash the required number of shares, Swala shall be obligated to redeem the preferred shares by transferring and returning shares of PAEM sold to Swala; the aggregate value of these shares will equal the amount of any outstanding redemption.

Following the issue of the preference shares the Company recorded a further price adjustment of $0.3 million as a result of paying a dividend that was due on closing but withheld pending the issue of the preference shares. This reduced the total cash consideration for tranche one of the transaction to $15.4 million.

The share purchase agreement provided Swala with the right to acquire up to a maximum of 40% of the outstanding Class A shares of PAEM based on the same terms and conditions. Subsequent to December 31, 2018 the Company terminated this right.

A reconciliation of the non-controlling interest is detailed below:

	AS AT	
$'000	**MARCH 31, 2019**	DECEMBER 31, 2018
Balance, beginning of period	**471**	–
Recorded at the date of disposition	**–**	178
Share of post-disposition income	**300**	293
Balance, end of period	**771**	471

Corporate Information

Board of Directors

Nigel Friend
Executive Director and
Chief Executive Officer

Richmond, London
United Kingdom

David W. Ross
Non-Executive
Director

Calgary, Alberta
Canada

William H. Smith
Non-Executive
Director

Calgary, Alberta
Canada

Glenn D. Gradeen
Non-Executive Director

Calgary, Alberta
Canada

Officers

Nigel Friend
Chief Executive Officer

Richmond, London
United Kingdom

Blaine Karst
Chief Financial Officer

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