ORCA EXPLORATION GROUP INC.

Q2

2019 Q2 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	**2P**	Proven and probable reserves
MMcf	Millions of standard cubic feet	**3P**	Proven, probable and possible reserves
Bcf	Billions of standard cubic feet	**Kwh**	Kilowatt hour
Tcf	Trillions of standard cubic feet	**MW**	Megawatt
MMcfd	Millions of standard cubic feet per day	**$**	US dollars
MMbtu	Millions of British thermal units	**CDN$**	Canadian dollars
1P	Proven reserves	**bar**	Fifteen pounds pressure per square inch

Operating and Financial Highlights

(Expressed in $'000 unless indicated otherwise)	THREE MONTHS ENDED JUNE 30 2019	2018	% change Q2/19 VS Q2/18	SIX MONTHS ENDED JUNE 30 2019	2018	% change YTD/19 VS YTD/18
OPERATING						
Daily average gas delivered and sold *(MMcfd)*	**56.6**	33.7	68%	**59.0**	35.6	66%
Industrial	**13.1**	14.2	(7)%	**12.4**	14.1	(12)%
Power	**43.5**	19.5	123%	**46.6**	21.5	117%
Average price *($/mcf)*						
Industrial	**8.32**	7.80	7%	**8.15**	7.80	4%
Power	**3.35**	3.62	(7)%	**3.39**	3.61	(6)%
Weighted average	**4.50**	5.39	(17)%	**4.39**	5.27	(17)%
Operating netback *($/mcf)* [(1)]	**2.81**	3.18	(12)%	**2.65**	2.68	(1)%
FINANCIAL						
Revenue	**20,994**	14,959	40%	**40,930**	29,182	40%
Net cash flows from operating activities	**8,943**	12,657	(29)%	**22,149**	14,184	56%
per share - basic and diluted *($)*	**0.25**	0.36	(31)%	**0.63**	0.40	57%
Net income attributable to shareholders	**6,726**	12,493	(46)%	**9,510**	7,882	21%
per share - basic and diluted *($)*	**0.19**	0.35	(46)%	**0.27**	0.22	23%
Adjusted funds flow from operations [(1)]	**10,463**	4,752	120%	**19,500**	7,727	152%
per share - basic and diluted *($)*	**0.30**	0.14	114%	**0.55**	0.22	150%
Capital expenditures	**1,413**	1,042	36%	**2,505**	1,861	35%

	JUNE 30, 2019	AS AT DECEMBER 31, 2018	
Working capital (including cash)	**99,213**	84,182	18%
Cash and cash equivalents	**47,100**	64,660	(27)%
Investment in short-term bonds	**96,645**	66,837	45%
Long-term loan	**53,988**	53,900	0%

	JUNE 30, 2019	AS AT JUNE 30, 2018	
Outstanding shares *('000)*			
Class A	**1,750**	1,750	0%
Class B	**33,490**	33,506	0%
Total shares outstanding	**35,240**	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.*

Q2 2019 Operating Highlights

- During Q2 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"). On May 29, 2019 the Company announced the signing of a new long-term Gas Sales Agreement ("LTGSA") with the Tanzania Petroleum Development Corporation ("TPDC"). The LTGSA provides for the supply of up to 20 million standard cubic feet per day ("MMcfd") of natural gas to the TPDC operated NNGI on Songo Songo Island, where the natural gas is processed before being transported to Dar es Salaam, primarily for power generation.

  Sales of gas under the milestone LTGSA will replace 20 MMcfd of the 35 MMcfd recently sold under the side letter agreement to the PGSA established with TPDC and the Tanzanian Electric Supply Company ("TANESCO") in December 2018. The balance of 15 MMcfd sold under the side letter agreement will continue to be supplied through the NNGI alongside the 20 MMcfd sold under the LTGSA, until the refrigeration unit for the Songas processing plant undergoes final testing and acceptance and is fully optimized to allow production through the Songas facilities to be maintained at 100 MMcfd. The refrigeration unit installation was completed in early July and currently enables the Company to process up to 90 MMcfd through the Songas facilities. On completion of the optimization and final commissioning of the refrigeration unit, all production to TANESCO will revert to being sold through the Songas facilities under the PGSA and the side letter agreement will terminate.

- The Company's revenue for the quarter increased by 40% to $21.0 million from $15.0 million in Q2 2018 and increased 40% to $40.9 million over the six months ended June 30, 2019 compared to $29.2 million for the comparable prior year period. The increase for the quarter and year-to-date amounts is the result of higher revenues from sales to TANESCO, a greater percentage of profit share and a positive current income tax adjustment as a consequence of recording a profit in the periods. Gas deliveries and sales for the quarter averaged 56.6 MMcfd an increase of 68% over 33.7 MMcfd in Q2 2018 and increased 66% to 59.0 MMcfd for the six months ended June 30, 2019 compared to 35.6 MMcfd for the comparable prior year period. The increase in gas volume deliveries 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 Q2 2019 to $4.50/mcf from $5.39/mcf in Q2 2018 and by a 17% decrease in the weighted average price in the six months ending June 30, 2019 to $4.39/mcf from $5.27/mcf for the comparable prior year period.
- The Company recorded a net income attributable to shareholders of $6.7 million for the quarter ($0.19 per share diluted) compared to a net income attributable to shareholders of $12.5 million in Q2 2018 ($0.35 per share diluted) and $9.5 million net income attributable to shareholders for the six months ended June 30, 2019 compared to a net income attributable to shareholders of $7.9 million for the comparable prior year period. The decrease in net income attributable to shareholders for the quarter was primarily a consequence of the increase in finance income in Q2 2018 as a result of the reversal of the provision for doubtful accounts of $13.4 million related to the collection of TANESCO arrears previously provided for. The increase for the six months ended June 30, 2019 was primarily a consequence of the increase in revenue, reduced stock based compensation and the decrease in the finance expense between periods offsetting the decrease in finance income.

- Net cash flows from operating activities for the quarter ended June 30, 2019 decreased by 29% to $8.9 million in the quarter compared to $12.7 million in Q2 2018 and increased by 56% for the six months ended June 30, 2019 to $22.1 million from $14.2 million for the comparable prior year period. The decrease in the quarter is a consequence of the increase in finance income in Q2 2018 as noted above. The increase in the six months ended June 30, 2019 compared to the six months ended June 30, 2018 is mainly due to an increase in revenue between periods and a decrease in stock based compensation.
- Adjusted funds flow from operations for the quarter increased by 120% to $10.5 million from $4.8 million in Q2 2018 and increased by 152% to $19.5 million for the six months ended June 30, 2019 compared to $7.7 million for the six months ended June 30, 2018. The increase for the quarter and the six months ended June 30, 2018 from the comparable prior year periods is primarily a result of increased sales volumes and revenue between periods.
- Working capital increased 18% to $99.2 million compared to $84.2 million as at December 31, 2018. The increase is primarily the result of the continued collection of TANESCO long-term arrears and the decrease in liabilities associated with the TPDC Profit Gas entitlement. The combined total of cash and investment in short-term bonds at June 30, 2019 was $143.7 million (December 31, 2018: $131.5 million), an increase of 9%. The Company's intention is to hold the bond investments to maturity.
- At June 30, 2019 the current receivable from TANESCO was $ nil (December 31, 2018: $ nil). During the quarter, the amounts received from TANESCO were in excess of the revenue for gas sales to TANESCO resulting in the reversal of the provision for doubtful accounts of $3.5 million in Q2 2019. The TANESCO long-term trade receivable at June 30, 2019 was $55.0 million with a provision of $55.0 million compared to $58.5 million (with a provision of $58.5 million) at December 31, 2018. Subsequent to June 30, 2019 the Company has invoiced TANESCO $4.6 million for July 2019 gas deliveries and TANESCO has paid the Company $6.2 million.
- On May 29, 2019 the Company declared a dividend of CDN$0.06 per share on each of its Class A voting and Class B subordinate voting shares, totaling $1.6 million and payable to the holders of record as of June 30, 2019 and paid prior to July 31, 2019.
- On June 10, 2019 the Company announced its intention to initiate a Normal Course Issuer Bid (the "NCIB") for purchase of its Class B shares. Purchases made pursuant to the NCIB will not exceed 1,000,000 Class B shares, representing approximately 3% of the total outstanding Class B Shares. The NCIB will be in effect from June 14, 2019 to June 14, 2020. As at June 30, 2019 the Company had repurchased 16,500 shares pursuant to the NCIB at an average price of CDN$6.28. Shareholders may obtain a copy of the notice regarding the NCIB filed with the TSX Venture Exchange from the Company without charge.

ORCA EXPLORATION GROUP INC.

Q2 2019 MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion & Analysis

THIS MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND NOTES FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 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 AUGUST 14, 2019. ALL AMOUNTS ARE REPORTED IN US DOLLARS ("$") UNLESS OTHERWISE NOTED.

NATURE OF OPERATIONS

The principal operating asset of Orca Exploration Group Inc. ("Orca" or the "Company") 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 licence 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 gas to be treated and delivered to Dar es Salaam, which includes a gas processing plant on Songo Songo Island (the "Songas facilities").

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

The Tanzanian Electric Supply Company Limited ("TANESCO") is a parastatal organization which is wholly-owned by the GoT, 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 hydro power 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") between the Company, TANESCO and TPDC 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 47% of the electrical power generated in Tanzania and up to 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 39 contracts for the supply of gas to the industrial market in the Dar es Salaam.

Consolidation

The companies which are consolidated in the financial statements and the MD&A 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 and six months ended June 30, 2019

SUMMARY

During Q2 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. On May 29, 2019 the Company announced the signing of a new long-term Gas Sales Agreement ("LTGSA") with TPDC. The LTGSA provides for the supply of up to 20 million standard cubic feet per day ("MMcfd") of natural gas to the TPDC operated NNGI on Songo Songo Island, where the natural gas is processed before being transported to Dar es Salaam, primarily for power generation. The natural gas sales through the NNGI are in addition to gas processed and delivered through the Songas facilities.

In early July 2019 the Company completed the installation of a refrigeration unit for the Songas facilities. The unit is now operational but continues to undergo normal tests and adjustments prior to final acceptance. The refrigeration unit has enabled PAET to increase the volumes that can be processed and transported to Dar es Salaam through the Songas facilities to 90 MMcfd. This will be optimized in the coming months and is expected to increase ultimate production potential to 100 MMcfd. As noted above, the Company now sells volumes over and above the Songas facilities throughput of up to 20 MMcfd through the NNGI. Alongside this, until the refrigeration unit is fully optimised, PAET continues to supply limited volumes to TANESCO via the NNGI under the side letter agreement.

On completion of the optimization of the refrigeration unit, all volumes sold to TANESCO will revert to being sold through the Songas facilities under the PGSA and the side letter agreement will terminate.

The Company's operating revenue increased by 34% to $17.1 million in the quarter ended June 30, 2019 (Q2 2018: $12.8 million) and by 23% to $33.7 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $27.3 million). Gas deliveries increased by 68% to 56.6 MMcfd in the quarter ended June 30, 2019 (Q2 2018: 33.7 MMcfd) and by 66% to 59.0 MMcfd for the six months ended June 30, 2019 (six months ended June 30, 2018: 35.6 MMcfd) leading to a significant increase in operating revenue between periods mainly associated with higher deliveries to TANESCO through the NNGI. Revenue increased by 40% to $21.0 million in the quarter ended June 30, 2019 (Q2 2018: $15.0 million) and by 40% to $40.9 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $29.2 million). The increase in revenue is primarily a consequence of higher revenues from sales to TANESCO, an increase in profit share percentage from 35% to 55% due to increased volumes between periods and positive current income tax adjustments as a consequence of recording a profit in the periods.

The Company's net cash flows from operating activities for the quarter ended June 30, 2019 decreased by 29% to $8.9 million (Q2 2018: $12.7 million) and increased by 56% to $22.1 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $14.2 million). The decrease in the quarter is a consequence of the increase in finance income in Q2 2018 resulting from the reversal of a provision for doubtful accounts of $13.4 million relating to the collection of TANESCO arrears which had been previously provided for. The increase in the six months ended June 30, 2019 is mainly due to an increase in revenue between periods and a decrease in stock based compensation; the first half results in the comparable prior year period reflected the exercise of significant stock awards in Q1 2018 following completion of the sale of a non-controlling interest in PAEM.

The Company's adjusted funds flow from operations [1] for the quarter ended June 30, 2019 increased by 120% to $10.5 million (Q2 2018: $4.8 million) and increased by 152% to $19.5 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $7.7 million). The increase is primarily the result of increased volumes and revenue between periods.

(1) Adjusted funds flow from operations is a non-GAAP measure. See Non-GAAP Measures.

The Company recorded a net income attributable to shareholders of $6.7 million in the quarter ended June 30, 2019 (Q2 2018: $12.5 million) and a net income attributable to shareholders of $9.5 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $7.8 million). The decrease in net income attributable to shareholders in Q2 2019 is primarily a consequence of the increase in finance income Q2 2018 as a result of the reversal of the provision for doubtful accounts of $13.4 million relating to the collection of TANESCO arrears. The increase of net income attributable to shareholders in the six months ended June 30, 2019 is primarily a result of the increase in revenue, reduced stock-based compensation expense and decreased finance expense between periods offsetting the decrease in finance income

During the quarter ended June 30, 2019 the Company concluded installation of a refrigeration unit for the Songas facilities which was put into operation in early July 2019. The refrigeration unit is currently undergoing an optimization process which should be completed within the next two months. Total capital expenditures for the quarter ended June 30, 2019 were $1.4 million (Q2 2018: $1.0 million) and $2.5 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $1.9 million). The 2018 expenditures related primarily to the completion of well SS-12 flowlines to enable connection to the NNGI.

The Company exited the period with $99.2 million in working capital (December 31, 2018: $84.2 million), cash and cash equivalents of $47.1 million (December 31, 2018: $64.7 million), investment in short-term bonds of $96.6 million (December 31, 2018: $66.8 million) and long-term debt of $54.0 million (December 31, 2018: $53.9 million).

On May 29, 2019 the Company declared a dividend of CDN$0.06 per share on each of its Class A voting and Class B subordinate voting shares for a total of $1.6 million the holders of record as of June 30, 2019 and paid prior to July 31, 2019.

On June 10, 2019 the Company announced its intention to initiate a Normal Course Issuer Bid (the "NCIB") for purchase of its Class B shares. Purchases made pursuant to the NCIB will not exceed 1,000,000 Class B shares, representing approximately 3% of the total outstanding Class B Shares. The Bid will be in effect from June 14, 2019 to June 14, 2020. As at June 30, 2019 the Company had repurchased 16,500 shares pursuant to the NCIB at an average price of CDN$6.28. Shareholders may obtain a copy of the notice regarding the NCIB filed with the TSX Venture Exchange (the "Exchange") from the Company without charge.

OPERATING VOLUMES

The gross sales volumes for the quarter ended June 30, 2019 were 5,153 MMcf (Q2 2018: 3,068 MMcf) or average daily volumes of 56.6 MMcfd (Q2 2018: 33.7 MMcfd). This represents an increase in average daily volumes of 68% quarter over quarter. The gross gas volumes sold for the six months ended June 30, 2019 increased by 66% to 10,673 MMcf (59.0 MMcfd) from 6,433 MMcf (35.6 MMcfd) for the six months ended June 30, 2018. The increase in gross sales volume was due primarily to increased sales of natural gas to 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 JUNE 30		SIX MONTHS ENDED JUNE 30	
	2019	2018	**2019**	2018
Gross sales volume *(MMcf)*				
Industrial sector	**1,197**	1,294	**2,245**	2,545
Power sector	**3,956**	1,774	**8,428**	3,888
Total volumes	**5,153**	3,068	**10,673**	6,433
Gross daily sales volume *(MMcfd)*				
Industrial sector	**13.1**	14.2	**12.4**	14.1
Power sector	**43.5**	19.5	**46.6**	21.5
Total daily sales volume	**56.6**	33.7	**59.0**	35.6

Industrial sector

Industrial sector sales volumes for the quarter ended June 30, 2019 decreased 7% to 1,197 MMcf (13.1 MMcfd) from 1,294 MMcf (14.2 MMcfd) from the quarter ended June 30, 2018. The Industrial sector sales volumes for the six months ended June 30, 2019 decreased by 12% to 2,245 MMcf (12.4 MMcfd) from 2,545 MMcf (14.1 MMcfd) for the six months ended June 30, 2018. Primarily, the decrease was due to the decreased gas sales to a cement plant.

Power sector

Power sector sales volumes for the quarter ended June 30, 2019 increased by 123% to 3,956 MMcf (43.5 MMcfd) from 1,774 MMcf (19.5 MMcfd) for the quarter ended June 30, 2018. The Power sector sales volumes for the six months ended June 30, 2019 increased by 117% to 8,428 MMcf (46.6 MMcfd) from 3,888 MMcf (21.5 MMcfd) for the six months ended June 30, 2018. The increase was due primarily to increased gas sales to TANESCO.

Protected Gas volumes

Protected Gas volumes for the quarter ended June 30, 2019 were 3,358 MMcf (Q2 2018: 3,202 MMcf) or average daily volumes of 36.9 MMcfd (Q2 2018: 35.2 MMcfd). Protected Gas volumes for the six months ended June 30, 2019 were 7,104 MMcf (six months ended June 30, 2018: 6,824 MMcf) or average daily volumes of 39.2 MMcfd (six months ended June 30, 2018: 37.7 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 June 30, 2019 the Company had a well capacity of approximately 130 MMcfd. Until well SS-12 began producing through the NNGI on Songo Songo Island in December 2018, capable of supplying up to 35 MMcfd, production had been limited to 97 MMcfd due to a combination of Songas Infrastructure capacity limitations and reservoir pressure decline. With the optimization of the refrigeration unit at the Songas Plant scheduled for completion in Q3 2019, alongside some planned works to de-couple and optimize flow lines for SS-10 and SS-11 wells, 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 achieved by continuing to increase gas produced through the NNGI.

Sales of gas under the LTGSA replaced 20 MMcfd of the 35 MMcfd being sold to TANESCO under the side letter agreement to the PGSA established with TPDC and TANESCO in December 2018. The balance of 15 MMcfd sold under the side letter agreement will continue to be supplied through the NNGI alongside the 20 MMcfd sold under the LTGSA, until completion of the optimization of refrigeration unit for the Songas facilities. On completion of the refrigeration project, the 15 MMcfd will revert to being sold to TANESCO through the Songas facilities and the side letter agreement will terminate.

With the approval of the LTGSA, the Company is selling 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. Limited sand production has been identified in SS-4 and SS-7, which is also shut-in until further root cause analysis has been completed. The Company may undertake workovers on SS-3 and SS-4 wells in the future together with well SS-10. As at June 30, 2019 well SS-11 is tied into both the Songas facilities 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. In order to manage incremental demand through the NNGI, it is planned to install dual flow control on the SS-11 flow line to overcome arrival pressure differentials between the Songas and NNGI plants, allowing the well to flow to both plants simultaneously. This is expected to be in place by mid-2020.

All planned capital expenditures are to be funded out of existing working capital and cash flow generated by current operations.

COMMODITY PRICES

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

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
$/mcf	**2019**	2018	**2019**	2018
Average sales price				
Industrial sector	**8.32**	7.80	**8.15**	7.80
Power sector	**3.35**	3.62	**3.39**	3.61
Weighted average price	**4.50**	5.39	**4.39**	5.27

Industrial sector

The average gas price achieved for the Industrial sector during the quarter ended June 30, 2019 was $8.32/mcf, an increase of 7% from $7.80/mcf in Q2 2018. The average price for the six months ended June 30, 2019 was $8.15/mcf, an increase of 4% from $7.80/mcf for the six months ended June 30, 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 for the Power sector during the quarter ended June 30, 2019 was $3.35/mcf, a decrease of 7% from $3.62/mcf in Q2 2018. The average price for the six months ended June 30, 2019 was $3.39/mcf, a decrease of 6% from $3.61/mcf for the six months ended June 30, 2018. The decrease is primarily 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 a processing and transportation tariff. Although the average gas price is less, the net to the Company actually increased slightly year on year as the Company does not pay processing and transportation tariffs when delivering through the NNGI.

COMPANY OPERATING REVENUE

Under the terms of the PSA, the Company is responsible for invoicing, collecting and allocating the net field revenue from Additional Gas sales. See "Principal Terms of the Tanzanian PSA and Related Agreements" in the MD&A within the audited financial statements for the year ended December 31, 2018.

The Company is entitled to recover all costs incurred on the exploration, development and operations of the project up to a maximum of 75% of the net field revenue ("Cost Gas") prior to the distribution of Profit Gas. Any costs not recovered in any period are carried forward for recovery out of future revenues. Once the Cost Gas has been recovered, TPDC is entitled 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 and six months ended June 30, 2019 were above 50 MMcfd; as a consequence, the Company was entitled to a 55% share of Profit Gas revenue. The average Additional Gas volumes for the quarter and six months ended June 30, 2018 were below 40 MMcfd which entitled the Company to a 35% share of Profit Gas revenues.

The Company was allocated a total of 69% of the net field revenue for the quarter ended June 30, 2019 (Q2 2018: 75%) and 72% for the six months ended June 30, 2019 (six months ended June 30, 2018: 69%).

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

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
$'000	**2019**	2018	**2019**	2018
Industrial sector	**9,957**	10,099	**18,308**	19,846
Power sector	**13,254**	6,431	**28,594**	18,213
Gross field revenue	**23,211**	16,530	**46,902**	38,059
TPDC Profit Gas entitlement	**(6,137)**	(3,689)	**(13,180)**	(10,727)
Company operating revenue	**17,074**	12,841	**33,722**	27,332
Current income tax adjustment	**3,920**	2,118	**7,208**	1,850
Revenue	**20,994**	14.959	**40,930**	29,182
Reconciliation to net field revenue:				
Gross field revenue	**23,211**	16,530	**46,902**	38,059
Tariff for processing and pipeline infrastructure	**(1,668)**	(1,786)	**(3,747)**	(3,767)
Net field revenue	**21,543**	14,744	**43,155**	34,292
Allocation of net field revenue:				
Company Cost Gas revenue	**7,905**	9,068	**13,866**	17,569
Company Profit Gas revenue	**7,501**	1,987	**16,109**	5,996
Company share of net field revenue	**15,406**	11,055	**29,975**	23,565
TPDC Profit Gas entitlement	**6,137**	3,689	**13,180**	10,727
Net field revenue	**21,543**	14,744	**43,155**	34,292

The Company's operating revenue increased 33% to $17.1 million for the quarter ended June 30, 2019 (Q2 2018: $12.8 million). The Company's operating revenue for the six months ended June 30, 2019 increased by 23% to $33.7 million from $27.3 million for the six months ended June 30, 2018. The increase for the quarter and six months ended June 30, 2019 is primarily a result of increased sales to TANESCO and higher Profit Gas entitlement partially offset by the decrease in deliveries to industrial customers.

Revenue presented on the Consolidated Interim Statements of Comprehensive Income may be reconciled to the Company's operating revenue by adding $3.9 million current income tax adjustment for the quarter and adding $7.2 million for the six months ending June 30, 2019. 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 reflects the current income tax charge grossed up at 30%..

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; it also 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 sales 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.

During the quarter, the amounts received from TANESCO were in excess of the revenue for gas sales to TANESCO resulting in the reversal of the provision for doubtful accounts of $3.5 million in Q2 2019.

PRODUCTION, DISTRIBUTION AND TRANPORTATION EXPENSES

Well maintenance costs are allocated between Protected Gas and Additional Gas in proportion to their respective sales during the period. The total cost of maintenance for the quarter ended June 30, 2019 was $0.1 million (Q2 2018: $0.2 million) and $0.2 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $0.3 million). Amounts allocated for Additional Gas for the quarter ended June 30, 2019 were $0.1 million (Q2 2018: $0.1 million) and $0.1 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $0.2 million).

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

The processing and transportation tariff charges for the quarter ended June 30, 2019 were $1.7 million (Q2 2018: $1.8 million) and $3.7 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $3.8 million).

Distribution costs represent the direct cost of maintaining the ring main distribution pipeline and pressure reduction stations owned and operated by the Company (security, insurance and personnel). Ring main distribution costs for the quarter ended June 30, 2019 were $0.5 million (Q2 2018: $1.0 million) and $1.1 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $1.5 million). The production, distribution and transportation expenses are detailed in the table below:

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
$'000	**2019**	2018	**2019**	2018
Share of well maintenance	**70**	126	**108**	176
Other field and operating costs	**351**	232	**577**	439
	421	358	**685**	615
Tariff for processing and pipeline infrastructure	**1,668**	1,786	**3,747**	3,767
Ring main distribution costs	**524**	953	**1,059**	1,504
Production, distribution and transportation expenses	**2,613**	3,097	**5,491**	5,886

OPERATING NETBACK [1]

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

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
$/mcf	**2019**	2018	**2019**	2018
Gas price - Industrial	**8.32**	7.80	**8.15**	7.80
Gas price - Power [2]	**3.35**	3.62	**3.39**	3.61
Weighted average price for gas	**4.50**	5.39	**4.39**	5.27
TPDC share of revenue	**(1.19)**	(1.20)	**(1.23)**	(1.67)
Well maintenance and other operating costs	**(0.08)**	(0.12)	**(0.06)**	(0.10)
Tariff for processing and pipeline infrastructure	**(0.32)**	(0.59)	**(0.35)**	(0.59)
Ring main distribution costs	**(0.10)**	(0.30)	**(0.10)**	(0.23)
Operating netback	**2.81**	3.18	**2.65**	2.68

[1] Operating netback is a non-GAAP measure. See non-GAAP measures.
[2] 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 ended June 30, 2019 decreased by 12% to $2.81/mcf (Q2 2018: $3.18/mcf) and by 1% to $2.65/mcf for the six months ended June 30, 2019 (six months ended June 30, 2018: $2.68/mcf). The decrease in the quarter and for the six months ended June 30, 2019 is predominately due to the increase of the Power sector volumes in the revenue mix resulting in a lower weighted average price for gas. This was partially offset by the decrease in tariff for processing and pipeline infrastructure to $0.32/Mcf in Q2 2019 from $0.59/Mcf in Q2 2018 and to $0.35/Mcf for the six months ended June 30, 2019 (six months ended June 30, 2018: $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 JUNE 30		SIX MONTHS ENDED JUNE 30	
$'000	**2019**	2018	**2019**	2018
Employee and related costs	**1,351**	1,531	**3,520**	3,282
Office costs	**1,194**	1,189	**2,213**	2,521
Marketing and business development costs	**513**	62	**689**	198
Reporting, regulatory and corporate	**466**	309	**640**	611
General and administrative expenses	**3,524**	3,091	**7,062**	6,612

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 JUNE 30		SIX MONTHS ENDED JUNE 30	
$'000	**2019**	2018	**2019**	2018
Tanzania	**1,794**	1,986	**3,992**	4,218
Corporate	**1,730**	1,105	**3,070**	2,394
	3,524	3,091	**7,062**	6,612

General and administrative expenses averaged $1.2 million (Q2 2018: $1.0 million) per month during the quarter and $1.2 million per month for the six months ended June 30, 2019 (six months ended June 30, 2018: $1.1 million).

STOCK BASED COMPENSATION

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

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
$'000	**2019**	2018	**2019**	2018
Stock appreciation rights ("SARs")	**123**	356	**130**	2,741
Restricted stock units ("RSUs")	**761**	67	**797**	2,311
Stock based compensation	**884**	423	**927**	5,052

As at June 30, 2019 a total of 2,388,500 SARs were outstanding compared to 645,000 as at December 31, 2018. A total of 2,006,500 of new SARs were issued during the quarter with exercise prices ranging from CDN$5.00 to CDN$5.32. A total of 263,000 SARs with exercise prices ranging from CDN$2.30 to CDN$3.87 were exercised during the six months ended June 30, 2019 resulting in a total cash payout of $0.6 million.

As at June 30, 2019 a total of 230,700 RSUs were outstanding compared to 87,500 at December 31, 2018. A total of 205,700 of new RSUs were issued during the quarter with an exercise price of CDN$0.01. A total of 62,500 RSUs were exercised during the six months ended June 30, 2019 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 31.2% to 45.3%; 0% dividend yield; 5% forfeiture; and a closing price of CDN$6.10 per Class B share.

As at June 30, 2019 a total accrued liability of $1.5 million (December 31, 2018: $1.6 million) has been recognized in relation to SARs and RSUs. The Company recognized an expense of $0.9 million for the quarter ended June 30, 2019 (Q2 2018: $0.4 million) and an expense of $0.9 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $5.1 million). The increase in the stock based compensation expense in Q1 2018 is a result of the sale of the non-controlling interest in PAEM and the corresponding increase in share price and exercise of awards.

FINANCE INCOME AND EXPENSE

Finance income is detailed in the table below:

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
$'000	**2019**	2018	**2019**	2018
Interest income	**131**	157	**215**	394
Investment income	**631**	307	**1,218**	307
Reversal of provision for doubtful accounts	**3,498**	13,439	**3,498**	13,439
	4,260	13,903	**4,931**	14,140

The reversal of the provision for doubtful accounts of $3.5 million relates to the collection of TANESCO arrears which had been previously provided for and represents excess receipts over invoiced gas deliveries during the six months ended June 30, 2019.

At June 30, 2019 the Company had $96.6 million invested in US dollar short-term bonds with maturity dates from July 2019 to May 2020 and a range of interest rates from 0.875% to 2.38% (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 June 30, 2019 (Q2 2018: $0.3 million) includes accrued interest of $0.4 million (Q2 2018: $0.2 million) and amortization of the discount on the acquisition of the bonds of $0.2 million (Q2 2018: $0.1 million). The $1.2 million investment income for the six months ended June 30, 2019 (Q2 2018: $0.3 million) includes accrued interest of $0.7 million (Q2 2018: $0.2 million) and amortization of the discount on the acquisition of the bonds of $0.5 million (Q2 2018: $0.1 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 JUNE 30		SIX MONTHS ENDED JUNE 30	
$'000	**2019**	2018	**2019**	2018
Base interest expense	**1,561**	1,517	**3,104**	3,055
Participatory interest expense	**405**	607	**1,259**	3,745
Interest expense	**1,966**	2,124	**4,363**	6,800
Net foreign exchange loss	**93**	214	**185**	597
Indirect tax	**334**	2,799	**672**	3,063
	2,393	5,137	**5,220**	10,460

Base and participatory interest expense relate to the long-term loan. The base interest expense during the quarter was $1.6 million (Q2 2018: $1.5 million) and $3.1 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $3.1 million). The participatory interest expense during the quarter was $0.4 million (Q2 2018: $0.6 million) and $1.3 million for the six months ended June 30, 2019 (six month ended June 30, 2018: $3.7 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 (Q2 2018: $2.8 million) and $0.7 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $3.1 million) is for VAT associated with invoices to TANESCO for interest on late payments and invoices under the take or pay provisions within the PGSA. These invoices are not recognized in the financial statements as they do not meet revenue recognition criteria with respect to assurance of collectability. The decrease in indirect tax between periods was a result of no invoice being issued under the take or pay provisions within the PGSA as TANESCO took the required volumes for the one year contract period ended June 30, 2019 (invoice for the one year contract period ended June 30, 2018: $16.6 million).

TANESCO

At June 30, 2019 the current receivable from TANESCO was $ nil (December 31, 2018: $ nil). During the quarter, the amounts received from TANESCO were in excess of the revenue for gas sales to TANESCO resulting in the reversal of the provision for doubtful accounts of $3.5 million in Q2 2019.

The TANESCO long-term trade receivable at June 30, 2019 was $55.0 million with a provision of $55.0 million compared to $58.5 million (with a provision of $58.5 million) at December 31, 2018. Subsequent to June 30, 2019 the Company has invoiced TANESCO $4.6 million for July 2019 gas deliveries and TANESCO has paid the Company $6.2 million.

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

		AS AT
$'000	**JUNE 30, 2019**	DECEMBER 31, 2018
Total TANESCO receivable	**122,300**	121,393
Unrecognized amounts not meeting revenue recognition criteria (i)	**(67,300)**	(62,895)
Provision for doubtful accounts	**(55,000)**	(58,498)
TANESCO balance per consolidated financial statements	**–**	–

(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 June 30, 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 $13.8 million (December 31, 2018: $12.8 million). During the quarter there was a deferred tax charge of $0.5 million compared to a deferred tax charge of $0.4 million in Q2 2018. The deferred tax has no impact on cash flow until it becomes a current income tax, at which point the tax is paid and recovered from TPDC's share of Profit Gas.

Additional Profits Tax

Under the terms of the PSA, 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 annually forecasting 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 effective APT rate of 19.7% (Q2 2018: 19.3%) has been applied to Profit Gas of $7.5 million (Q2 2018: $2.0 million) and $16.1 million for the six months ended June 30, 2019 ($6.0 million for the six months ended June 30, 2018). Accordingly, $1.5 million for the quarter ended June 30, 2019 (Q2 2018: $0.4 million) and $3.2 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $1.2 million) of APT has been recorded as other income tax.

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
$'000	**2019**	2018	**2019**	2018
Additional Profits Tax	**1,475**	383	**3,167**	1,157

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 $3.3 million for the quarter (Q2 2018: $1.8 million) and $6.8 million for the six months ended June 30, 2019 ($3.8 million six months ended June 30, 2018) has been recorded in the accounts at an average depletion rate to $0.63/mcf (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 June 30, 2019 the Company incurred $1.4 million (Q2 2018: $1.0 million) and $2.5 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $1.8 million) in capital relating primarily to the refrigeration project for the Songas facilities.

	THREE MONTHS ENDED JUNE 30		**SIX MONTHS ENDED JUNE 30**	
$'000	**2019**	2018	**2019**	2018
Pipelines and infrastructure	**1,413**	1,019	**2,498**	1,811
Other capital expenditures	**-**	23	**7**	50
	1,413	1,042	**2,505**	1,861

CASH FLOW SUMMARY

$'000	THREE MONTHS ENDED JUNE 30 2019	2018	SIX MONTHS ENDED JUNE 30 2019	2018
Operating activities				
Net income	**7,442**	12,487	**10,526**	7,849
Non-cash adjustments	**6,519**	5,704	**12,472**	13,317
Interest expense	**1,966**	2,124	**4,363**	6,800
Changes in non-cash working capital (1)	**(6,984)**	(7,658)	**(5,212)**	(13,782)
Net cash flows from operating activities	**8,943**	12,657	**22,149**	14,184
Net cash used in investing activities	**(759)**	(890)	**(2,248)**	(1,701)
Net cash used in financing activities	**(1,460)**	(75,451)	**(37,444)**	(80,742)
Increase (decrease) in cash	**6,724**	(63,684)	**(17,543)**	(68,259)
Effect of change in foreign exchange on cash	**4**	53	**(17)**	119
Net increase (decrease) in cash	**6,728**	(63,631)	**(17,560)**	(68,140)

(1) See Consolidated Interim Statements of Cash Flows

The Company's net cash flows from operating activities for the quarter ended June 30, 2019 decreased by 29% to $8.9 million (Q2 2018: $12.7 million) and increased by 56% to $22.1 million for the six months ended June 30, 2019 ($14.2 million for the six months ended June 30, 2018). The decrease in the quarter is primarily a consequence of the increase in finance income in Q2 2018 as a result of the reversal of the provision for doubtful accounts of $13.4 million relating to the collection of TANESCO arrears, offsetting the increase in revenue during the same period. The increase in the six months ended June 30, 2019 is mainly due to an 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. The decrease in cash used in financing activities is primarily a result of an additional investment in short-term bonds in Q1 2018.

WORKING CAPITAL

Working capital as at June 30, 2019 was $99.2 million (December 31, 2018: $84.2 million) and is detailed in the table below:

				AS AT
$'000		**JUNE 30, 2019**		DECEMBER 31, 2018
Cash		**47,100**		64,660
Investment in short term bonds		**96,645**		66,837
Trade and other receivables		**17,127**		15,862
Songas	2,059		2,489	
Industrial customers	10,969		9,107	
Songas gas plant operations	6,370		6,496	
Other receivables	1,896		1,937	
Provision for doubtful accounts	(4,167)		(4,167)	
Prepayments		**782**		1,217
		161,654		148,576
Trade and other payables		**59,797**		64,394
TPDC share of Profit Gas revenue [(1)]	36,560		40,260	
Songas	1,769		1,785	
Other trade payables	2,172		2,725	
Accrued liabilities	14,536		14,864	
Current portion of long-term debt	4,760		4,760	
Tax payable		**2,644**		–
		62,441		64,394
Working capital [(2)]		**99,213**		84,182

[(1)] *The balance of $36.6 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 $4.6 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. The balance of the accrual relates to the profit share associated with trade receivables and the difference between profit share percentages used to record the accrued liability at the time of delivery of the gas to TANESCO versus the profit share percentage used at the time of payment was received. The settlement of this accrual is dependent on the collection of the arrears and resolving compensation issues related to the GoT unilaterally taking away a delivery point in Q4 2015 resulting in reduction of the deliveries and sales of gas to TANESCO. In August 2019 a total of $6.5 million was paid to TPDC.*

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 short-term 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 ($9.0 million) and capital expenditures ($2.0 million) for 2019. The Company does not expect to incur any losses from debtors in 2019.
- Of the $11.0 million receivable relating to industrial customers $6.9 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 $1.6 million (Q2 2018: $1.5 million) and $3.1 million for the six months ended June 30, 2019 (six months ending June 30, 2018: $3.1 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 $0.4 million (Q2 2018: $0.6 million) and $1.3 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $3.7 million). The participatory interest charged in Q1 2018 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 to 6.45%. At June 30, 2019 the participatory interest included in accrued liabilities is $1.4 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 35,239,932 shares outstanding as at June 30, 2019 as detailed in the table below:

	AS AT	
Number of shares ('000)	**JUNE 30, 2019**	DECEMBER 31, 2018
Shares outstanding		
Class A shares	**1,750**	1,750
Class B shares	**33,490**	33,506
Class A and Class B shares outstanding	**35,240**	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 33,489,415 Class B subordinated voting shares ("Class B shares") outstanding. On June 10, 2019 the Company announced its intention to initiate a Normal Course Issuer Bid (the "NCIB") for purchase of its Class B shares. Purchases made pursuant to the NCIB will not exceed 1,000,000 Class B shares, representing approximately 3% of the total outstanding Class B Shares. The NCIB will be in effect from June 14, 2019 to June 14, 2020. As at June 30, 2019 the Company had repurchased 16,500 shares pursuant to the NCIB at an average price of CDN$6.28.

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 $0.1 million (Q2 2018: $0.1 million) and $0.1 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $0.2 million) was incurred with this firm for services provided.

As at June 30, 2019 the Company has a total of $0.1 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 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 (201.7 Bcf as at June 30, 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 facilities 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 facilities 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, 2018 and to $3.10/mcf on July 1, 2019. 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 and TANESCO to allow PGSA volumes up to a maximum monthly average volume of 35 MMcfd to temporarily flow through the NNGI. With the newly signed LTGSA, this temporary arrangement will be terminated once the refrigeration unit is fully commissioned and the PGSA volumes will again be processed through the Songas facility. The extra and excess charges to TANESCO are not applicable for volumes supplied pursuant to the side letter agreement.

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. The Company is finalizing 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 $2.2 million was incurred on the refrigeration project in 2019 (2018: $4.2 million) which became operational in July 2019 and is currently undergoing optimization scheduled for completion in Q3 2019. A portion of the workover costs are for wells SS-3 and SS-4. Should the workovers proceed 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.

Italy

As a result of the delays in developing the Italian permit due to changes in the Italian environmental regulations, the Company relinquished the rights to farm-in on the Central Adriatic permit in Q2 2019 and has no further capital obligations relating to Italian operations. The companies used for the Italian operations are in the process of being wound up.

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	14.1	43.0 [(3)]
VAT	2008-10	Output VAT on imported services and SSI Operatorship services.	2.7	2.7	5.4 [(4)]
			32.9	17.5	50.4

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 $50.4 million (December 31, 2018: $50.1 million). No significant changes occurred during the three months ended 30 June 2019.

(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;

(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 Appeal Board has set the hearing date of August 28, 2019. 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 ($8.4 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 ($6.5 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 ($11.2 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 $4.8 million and tax on repatriated income $3.1 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 ($5.3 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. Subsequent to quarter end, TRA responded to the Company's notice of objection by confirming their assessment. The Company has replied to TRA affirming its position and urged TRA to amend the assessment. The Company is now awaiting a 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, 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.

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 judgements, 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 judgements, estimates, and assumptions related to the application of IFRS 16 include:

i. incremental borrowing rate: The incremental borrowing rates are based on judgements 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 Company 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 Company 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.

NORMAL COURSE ISSUER BID AND DIVIDENDS

On June 10, 2019 the Company announced its intention to initiate an NCIB for purchase of its Class B shares. Purchases made pursuant to the NCIB will not exceed 1,000,000 Class B shares, representing approximately 3% of the total outstanding Class B Shares. The Bid will be in effect from June 14, 2019 to June 14, 2020. As at June 30, 2019 the Company had repurchased 16,500 shares pursuant to the NCIB at an average price of CDN$6.28 per share. Shareholders may obtain a copy of the notice regarding the NCIB filed with the Exchange from the Company without charge.

On May 29, 2019 the Company declared a dividend of CDN$0.06 per share on each of its Class A voting and Class B subordinate voting shares, totaling $1.6 million and payable to the holders of record as of June 30, 2019 and paid prior to July 31, 2019.

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, totaling $1.3 million and payable to the holders of record as of March 31, 2019; the dividend was paid on April 30, 2019.

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 $15.4 million cash (net of closing adjustments) and $4.0 million of Swala convertible preference shares pursuant to a share purchase agreement. The preference shares 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 June 30, 2019 the Company has not received any distributions or recorded any amount receivable related to the preference shares.

Swala is obligated to redeem 20% 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.

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. The Company terminated this right on March 31, 2019.

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

$'000	**SIX MONTHS ENDED JUNE 30, 2019**	**YEAR ENDED** DECEMBER 31, 2018
Balance, beginning of period	**471**	–
Recorded at the date of disposition	**–**	178
Share of post-disposition income	**1,016**	293
Dividends paid	**(952)**	–
Balance, end of period	**535**	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 $'000 except where otherwise stated	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
Financial								
Revenue	**20,994**	19,936	13,460	15,124	14,959	14,223	10,619	15,287
Net income (loss) attributable to shareholders	**6,726**	2,784	2,751	2,637	12,493	(4,611)	(4,684)	(34)
Earnings (loss) per share – basic and diluted *($)*	**0.19**	0.08	0.08	0.07	0.35	(0.13)	(0.13)	(0.00)
Adjusted funds flow from operations [(1)]	**10,463**	9,037	6,398	5,130	4,752	2,975	62	4,361
Adjusted funds flow from operations per share – basic and diluted *($)*	**0.30**	0.26	0.18	0.15	0.14	0.08	0.00	0.12
Net cash flows from operating activities	**8,943**	13,206	4,085	10,483	12,657	1,527	12,882	14,447
Net cash flows per share - basic and diluted *($)*	**0.25**	0.37	0.12	0.30	0.36	0.04	0.37	0.41
Operating netback [(1)] *($/mcf)*	**2.81**	2.48	1.88	2.38	3.18	2.23	2.26	2.94
Working capital	**99,213**	90,325	84,182	79,955	72,129	65,201	69,575	71,129
Long-term loan	**53,988**	53,943	53,900	58,603	58,596	58,557	58,518	58,501
Shareholders' equity	**100,269**	95,332	93,702	91,336	89,018	76,636	78,731	82,426
Capital expenditures								
Pipeline and infrastructure	**1,413**	1,085	2,561	1,349	1,042	792	442	477
Other equipment	**–**	7	67	5	–	27	30	126
Total	**1,413**	1,092	2,628	1,354	1,042	819	472	603
Operating								
Additional Gas sold *(MMcf)*								
– industrial	**1,197**	1,048	1,194	994	1,294	1,251	1,110	1,285
– power	**3,956**	4,472	2,929	3,022	1,774	2,114	2,428	2,867
Total	**5,153**	5,520	4,123	4,016	3,068	3,365	3,538	4,152
Additional Gas sold *(MMcfd)*								
– industrial	**13.1**	11.6	13.0	10.8	14.2	13.9	12.1	14.0
– power	**43.5**	49.7	31.8	32.8	19.5	23.5	26.4	31.1
Total	**56.6**	61.3	44.8	43.6	33.7	37.4	38.5	45.1
Average price per mcf *($)*								
– industrial	**8.32**	7.97	8.44	9.23	7.80	7.79	7.78	7.65
– power	**3.35**	3.43	3.68	3.78	3.62	3.60	3.63	3.63
Weighted Average	**4.50**	4.29	4.31	5.12	5.39	5.16	4.93	4.87

[(1)] *See non-GAAP measures.*

PRIOR EIGHT QUARTERS

The amount of revenue recorded from Q3 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 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.

Revenue fell in Q4 2017 from Q3 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 and Q2 2019 was positively impacted by a significant increase in deliveries to TANESCO and positive current income tax adjustments 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 increased sales volumes were maintained through Q4 2018, Q1 2019, and Q2 2019. The increase in net income in Q2 2019 reflects the increase in finance income related to the collection of $3.5 million of TANESCO arrears.
- The Company recorded an interest expense of $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, $2.4 million in Q1 2019, and $2.0 million in Q2 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:
    - Q3 2017: Charge of $2.1 million. The 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.
    - Q2 2019: Charge of $0.9 million predominantly as a result of issuance of 2,006,500 SARs and 205,700 RSUs. The share price closed at CDN$6.10.

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 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 due to the continuing consistent payments from TANESCO resulting in a combination of recording 100% of TANESCO deliveries as revenue in Q2 2018 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 2018 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 primarily due to the increase in revenue between periods. The increase from Q1 2019 to Q2 2019 is mainly due to the consistent payments from TANESCO resulting in an increase in finance income of $3.5 million related to collection of arrears.

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 decrease in net cash flows from operating activities from Q3 2017 to Q4 2017 primarily due to a decrease in revenue between periods. 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 were due to 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 decrease from Q1 2019 to Q2 2019 is a result of a decrease in trade and other payables.

The decrease in working capital to $69.6 million from Q3 2017 to 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, increases in revenue in Q1 2019 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. The increase from Q1 2019 to Q2 2019 is a result of the continued collection of TANESCO long-term arrears offset by the decrease in liabilities associated with the TPDC Profit Gas entitlement.

Capital expenditure for the last four quarters amounted to $6.5 million compared to $2.9 million from Q3 2017 to Q2 2018. The capital expenditures in the four quarters ending Q2 2019 primarily relate to the completion of the work on the refrigeration project on Songo Songo Island.

The level of Industrial sector sales volumes in the four quarters ending Q2 2019 averaged 1,108 MMcf (four quarters ending Q2 2018: 1,235 MMcf) with total Industrial sector sales volumes for the four quarters ending Q2 2019 decreasing to 4,443 MMcf (12.1 MMcfd) compared to 4,940 MMcf (13.6 MMcfd) in the four quarters ending Q2 2018. The decrease is primarily a result of a planned and unplanned maintenance at a cement plant.

The level of Power sector sales volumes increased by 57% in the four quarters ending Q2 2019 to an average of 3,595 MMcf (four quarters ending Q2 2018: 2,296 MMcf) with total Power sector sales volumes for the four quarters ending Q2 2019 increasing to 14,379 MMcf (39.5 MMcfd) compared to 9,183 MMcf (25.1 MMcfd) in the four quarters ending Q2 2018. The increase is the result of higher offtakes by TANESCO, primarily in Q4 2018, Q1 2019 and Q2 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 five quarters the Company has recorded 100% of TANESCO sales as revenue as receipts from TANESCO continue to be sufficient to pay for current gas deliveries.

At June 30, 2019 the current receivable from TANESCO was $ nil (December 31, 2018: $ nil). During the quarter, the amounts received from TANESCO were in excess of the revenue for gas sales to TANESCO resulting in the reversal of the provision for doubtful accounts of $3.5 million in Q2 2019. The TANESCO long-term trade receivable at June 30, 2019 was $55.0 million with a provision of $55.0 million compared to $58.5 million (with a provision of $58.5 million) at December 31, 2018. Subsequent to June 30, 2019 the Company has invoiced TANESCO $4.6 million for July 2019 gas deliveries and TANESCO has paid the Company $6.2 million.

As at June 30, 2019 Songas owed the Company $8.4 million (December 31, 2018: $9.0 million) while the Company owed Songas $1.8 million (December 31, 2018: $2.2 million). The amounts due to the Company are mainly for sales of gas of $2.1 million (December 31, 2018: $2.5 million) and for the operation of the gas plant of $6.4 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 $1.4 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 facilities, Songas is the owner of the facilities including 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 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 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. This is a performance measure that management believes represents the company's ability to generate sufficient cash flow to fund capital expenditures and/or service debt.

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
$'000	**2019**	2018	**2019**	2018
Net cash flows from operating activities	**8,943**	12,657	**22,149**	14,184
Interest expense	**(1,966)**	(2,124)	**(4,363)**	(6,800)
Finance income – TANESCO arrears	**(3,498)**	(13,439)	**(3,498)**	(13,439)
Changes in non-cash working capital	**6,984**	7,658	**5,212**	13,782
Adjusted funds flow from operations	**10,463**	4,752	**19,500**	7,727

The Company's adjusted funds flow from operations for the quarter ended June 30, 2019 was $10.5 million (Q2 2018: $4.8 million). For the six months ended June 30, 2019 there was an increase in adjusted funds flow from operations to $19.5 million (six months ended June 30, 2018: $7.7 million). The increase in funds flow from operations is primarily due to the increase in revenue driven by increased sales volumes.

- 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 five quarters.

B. Financial instrument classification and measurement

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

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

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

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

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.

Q2 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 and six-month periods ended June 30, 2019.

Condensed Consolidated Interim Statements of Comprehensive Income (unaudited)

ORCA EXPLORATION GROUP INC.		THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
$'000	Note	**2019**	2018	**2019**	2018
Revenue	*6, 7*	**20,994**	14,959	**40,930**	29,182
Production, distribution and transportation		**(2,613)**	(3,097)	**(5,491)**	(5,886)
Net production income		**18,381**	11,862	**35,439**	23,296
Expenses					
General and administrative		**(3,524)**	(3,091)	**(7,062)**	(6,612)
Stock based compensation	*13*	**(884)**	(423)	**(927)**	(5,052)
Depletion	*10*	**(3,259)**	(1,816)	**(6,751)**	(3,837)
Finance income	*8*	**4,260**	13,903	**4,931**	14,140
Finance expense	*8*	**(2,393)**	(5,137)	**(5,220)**	(10,460)
Income before tax		**12,581**	15,298	**20,410**	11,475
Income tax expense - current		**(3,118)**	(1,979)	**(5,792)**	(2,370)
Income tax expense - deferred		**(546)**	(449)	**(925)**	(99)
Additional Profits Tax		**(1,475)**	(383)	**(3,167)**	(1,157)
Net income		**7,442**	12,487	**10,526**	7,849
Net (income) loss attributable to non-controlling interest		**(716)**	6	**(1,016)**	33
Net income attributable to shareholders		**6,726**	12,493	**9,510**	7,882
Foreign currency translation loss from foreign operations		**(23)**	(105)	**(5)**	(37)
Comprehensive income		**6,703**	12,388	**9,505**	7,845
Net income attributable to shareholders per share *($)*					
Basic and diluted	*14*	**0.19**	0.35	**0.27**	0.22

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 JUNE 30, 2019	DECEMBER 31, 2018
Assets			
Current assets			
Cash and cash equivalents		**47,100**	64,660
Investment in short-term bonds	*8*	**96,645**	66,837
Trade and other receivables	*9*	**17,127**	15,862
Prepayments		**782**	1,217
		161,654	148,576
Non-current assets			
Long-term receivables	*9*	**2,457**	2,424
Investments	*19*	**3,967**	3,967
Property, plant and equipment	*10*	**103,157**	107,474
		109,581	113,865
Total assets		**271,235**	262,441
Equity and liabilities			
Current liabilities			
Trade and other payables	*11*	**55,037**	59,634
Tax payable		**2,644**	–
Current portion of long-term loan	*12*	**4,760**	4,760
		62,441	64,394
Non-current liabilities			
Deferred income taxes		**13,753**	12,828
Long-term loan	*12*	**53,988**	53,900
Additional Profits Tax		**40,784**	37,617
		108,525	104,345
Total liabilities		**170,966**	168,739
Equity			
Capital stock	*13*	**86,466**	86,508
Contributed surplus		**6,282**	6,319
Accumulated other comprehensive loss		**(253)**	(248)
Accumulated income		**7,239**	652
Non-controlling interest	*19*	**535**	471
		100,269	93,702
Total equity and liabilities		**271,235**	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 JUNE 30 2019	2018	SIX MONTHS ENDED JUNE 30 2019	2018
Operating activities					
Net Income		**7,442**	12,487	**10,526**	7,849
Adjustment for:					
Depletion and depreciation	10	**3,291**	1,856	**6,822**	3,926
Indirect tax	8	**334**	2,799	**672**	3,063
Stock based compensation expense	13	**884**	423	**927**	5,052
Deferred income taxes expense		**546**	449	**925**	99
Additional Profits Tax		**1,475**	383	**3,167**	1,157
Unrealized (gain) loss on foreign exchange		**(11)**	(206)	**(41)**	20
Interest expense	8	**1,966**	2,124	**4,363**	6,800
Change in non-cash working capital	18	**(6,984)**	(7,658)	**(5,212)**	(13,782)
Net cash flows from operating activities		**8,943**	12,657	**22,149**	14,184
Investing activities					
Property, plant and equipment expenditures	10	**(1,413)**	(1,042)	**(2,505)**	(1,861)
Change in non-cash working capital		**654**	152	**257**	160
Net cash used in investing activities		**(759)**	(890)	**(2,248)**	(1,701)
Financing activities					
Investment in bonds, net	8	**4,474**	(70,053)	**(29,808)**	(70,053)
Interest paid, net	8	**(1,561)**	(5,081)	**(3,104)**	(9,197)
Participatory interest paid	8	**(2,267)**	–	**(2,267)**	–
Proceeds on sale of interest in a subsidiary	19	**–**	(317)	**–**	15,374
Dividends paid to shareholders	13	**(1,313)**	–	**(1,313)**	(16,866)
Dividends paid to non-controlling interest		**(793)**	–	**(952)**	–
Net cash used in financing activities		**(1,460)**	(75,451)	**(37,444)**	(80,742)
Increase (decrease) in cash		**6,724**	(63,684)	**(17,543)**	(68,259)
Cash and cash equivalents at the beginning of the period		**40,372**	117,813	**64,660**	122,322
Effect of change in foreign exchange on cash for the period		**4**	53	**(17)**	119
Cash and cash equivalents at the end of the period		**47,100**	54,182	**47,100**	54,182

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

ORCA EXPLORATION GROUP INC. *$'000*	Capital stock	Contributed surplus	Cumulative translation adjustment	Accumulated income	Non-controlling interest	Total
Note	*13*			*13*	*19*	
Balance as at December 31, 2018	86,508	6,319	(248)	652	471	93,702
Share repurchase	(42)	(37)	–	–	–	(79)
Dividend declared	–	–	–	(2,923)	–	(2,923)
Foreign currency translation adjustment on foreign operations	–	–	(5)	–	–	(5)
Net income	–	–	–	9,510	1,016	10,526
Dividend declared non-controlling interest	–	–	–	–	(952)	(952)
Balance as at June 30, 2019	**86,466**	**6,282**	**(253)**	**7,239**	**535**	**100,269**

$'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	–	–	(37)	–	–	(37)
Net income (loss)	–	–	–	7,882	(33)	7,849
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 June 30, 2018	86,508	6,319	(202)	(3,752)	145	89,018

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 June 30, 2019 and for the three and six months ended June 30, 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 August 14, 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 Electricity 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 six-month period ended June 30, 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 judgements, 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 judgements, estimates, and assumptions related to the application of IFRS 16 include:

i. incremental borrowing rate: The incremental borrowing rates are based on judgements 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 Company 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 Company 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 June 30, 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 of 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 61% of the Company's gross field revenue operating revenue for the six months ending June 30, 2019 and $2.1 million of the short and long-term receivables at June 30, 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 June 30, 2019 the Company has working capital of $99.2 million which is net of $62.4 million of financial liabilities. With regards to current liabilities, $38.1 million is due within one to three months, nil is due within three to six months, and $24.3 million is due within six to twelve months (see Note 11).

At the end of the quarter approximately 59% 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 on a quarterly basis 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 JUNE 30
			2019			2018
$'000	**Italy**	**Tanzania**	**Total**	Italy	Tanzania	Total
External revenue	**–**	**20,994**	**20,994**	–	14,959	14,959
Segment net income (loss) [(1)]	**4**	**7,438**	**7,442**	(69)	12,556	12,487
Finance income [(2)]	**–**	**4,260**	**4,260**	–	13,903	13,903
Indirect tax [(2)]	**–**	**334**	**334**	–	2,799	2,799
Interest expense [(2)]	**–**	**1,966**	**1,966**	–	2,124	2,124
Capital additions	**–**	**1,413**	**1,413**	–	1,042	1,042
Depletion & depreciation	**–**	**3,291**	**3,291**	–	1,856	1,856

						SIX MONTHS ENDED JUNE 30
			2019			2018
$'000	**Italy**	**Tanzania**	**Total**	Italy	Tanzania	Total
External revenue	**–**	**40,930**	**40,930**	–	29,182	29,182
Segment net (loss) income [(1)]	**(2)**	**10,528**	**10,526**	(3)	7,852	7,849
Finance income [(2)]	**–**	**4,931**	**4,931**	–	14,140	14,140
Indirect tax [(2)]	**–**	**672**	**672**	–	3,063	3,063
Interest expense [(2)]	**–**	**4,363**	**4,363**	–	6,800	6,800
Capital additions	**–**	**2,505**	**2,505**	–	1,861	1,861
Depletion & depreciation	**–**	**6,822**	**6,822**	–	3,926	3,926

			AS AT JUNE 30, 2019			AS AT DECEMBER 31, 2018
$'000	**Italy**	**Tanzania**	**Total**	Italy	Tanzania	Total
Total assets	**155**	**271,080**	**271,235**	748	261,693	262,441
Total liabilities	**–**	**170,966**	**170,966**	16	168,723	168,739

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

(2) *See Note 8.*

7 REVENUE

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
$'000	**2019**	2018	**2019**	2018
Industrial sector	**9,957**	10,099	**18,308**	19,846
Power sector	**13,254**	6,431	**28,594**	18,213
Gross field revenue	**23,211**	16,530	**46,902**	38,059
TPDC share of revenue	**(6,137)**	(3,689)	**(13,180)**	(10,727)
Company operating revenue	**17,074**	12,841	**33,722**	27,332
Current income tax adjustment	**3,920**	2,118	**7,208**	1,850
Revenue	**20,994**	14,959	**40,930**	29,182

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 of 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 seven years.

8 FINANCE INCOME AND EXPENSE

Finance income

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
$'000	**2019**	2018	**2019**	2018
Interest income	**131**	157	**215**	394
Investment income	**631**	307	**1,218**	307
Reversal of provision for doubtful accounts	**3,498**	13,439	**3,498**	13,439
	4,260	13,903	**4,931**	14,140

The reversal of the provision for doubtful accounts of $3.5 million relates to the collection of TANESCO arrears which had been previously provided for and represents excess receipts over invoiced gas deliveries during the six months ended June 30, 2019 (see Note 9).

At June 30, 2019 the Company had $96.6 million invested in US dollar short-term bonds with maturity dates from July 2019 to May 2020 and a range of interest rates from 0.875% to 2.38% (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 June 30, 2019 (Q2 2018: $0.3 million) includes accrued interest of $0.4 million (Q2 2018: $0.2 million) and amortization of the discount on the acquisition of the bonds of $0.2 million (Q2 2018: $0.1 million). The $1.2 million investment income for the six months ended June 30, 2019 (Q2 2018: $0.3 million) includes accrued interest of $0.7 million (Q2 2018: $0.2 million) and amortization of the discount on the acquisition of the bonds of $0.5 million (Q2 2018: $0.1 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 JUNE 30		SIX MONTHS ENDED JUNE 30	
$'000	**2019**	2018	**2019**	2018
Base interest expense	**1,561**	1,517	**3,104**	3,055
Participatory interest expense	**405**	607	**1,259**	3,745
Interest expense	**1,966**	2,124	**4,363**	6,800
Net foreign exchange loss	**93**	214	**185**	597
Indirect tax	**334**	2,799	**672**	3,063
	2,393	5,137	**5,220**	10,460

Base and participatory interest expense relate to the long-term loan with the International Finance Corporation ("IFC"). The base interest expense during the quarter was $1.6 million (Q2 2018: $1.5 million) and $3.1 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $3.1 million). The participatory interest expense during the quarter was $0.4 million (Q2 2018: $0.6 million) and $1.3 million for the six months ended June 30, 2018 (six months ended June 30, 2018: $3.7 million).

The indirect tax of $0.3 million for the quarter (Q2 2018: $2.8 million) and $0.7 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $3.1 million) is VAT associated with invoices to TANESCO for interest on late payments and invoices under the take or pay provisions within the PGSA. 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). The decrease in indirect tax between periods was a result of no invoice being issued under the take or pay provisions within the PGSA as TANESCO took the required volumes for the one year contract period ended June 30, 2019 (for the one year contract period ended June 30, 2018: $16.6 million).

9 TRADE AND OTHER RECEIVABLES

Current receivables

$'000	AS AT JUNE 30, 2019	DECEMBER 31, 2018
Trade receivables		
Songas	**2,059**	2,489
Industrial customers	**10,969**	9,107
Less provision for doubtful accounts	**(452)**	(452)
	12,576	11,144
Other receivables		
Songas gas plant operations	**6,370**	6,496
Other	**1,896**	1,937
Less provision for doubtful accounts	**(3,715)**	(3,715)
	4,551	4,718
	17,127	15,862

Long-term trade receivables

$'000	AS AT JUNE 30, 2019	DECEMBER 31, 2018
TANESCO receivable	**55,000**	58,498
Provision for doubtful accounts	**(55,000)**	(58,498)
Net TANESCO receivable	**–**	–
VAT Songas workovers	**2,205**	2,205
Lease deposit	**252**	219
	2,457	2,424

TANESCO

At June 30, 2019 the current receivable from TANESCO was $ nil (December 31, 2018: $ nil). During the quarter, the amounts received from TANESCO were in excess of the revenue for gas sales to TANESCO resulting in the reversal of the provision for doubtful accounts of $3.5 million in Q2 2019.

The TANESCO long-term trade receivable at June 30, 2019 was $55.0 million (provision of $55.0 million) compared to $58.5 million (provision of $58.5 million) at December 31, 2018. Subsequent to June 30, 2019 the Company has invoiced TANESCO $4.6 million for July 2019 gas deliveries and TANESCO has paid the Company $6.2 million.

Songas

As at June 30, 2019 Songas owed the Company $8.4 million (December 31, 2018: $9.0 million) while the Company owed Songas $1.8 million (December 31, 2018: $1.8 million). The amounts due to the Company are mainly for sales of gas of $2.1 million (December 31, 2018: $2.5 million) and for the operation of the gas plant of $6.4 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 $1.4 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	2,498	–	7	–	–	2,505
As at June 30, 2019	**212,508**	**699**	**1,551**	**449**	**1,168**	**216,375**
Accumulated depletion and depreciation						
As at December 31, 2018	102,753	699	1,409	409	1,126	106,396
Depletion and depreciation	6,751	–	43	21	7	6,822
As at June 30, 2019	**109,504**	**699**	**1,452**	**430**	**1,133**	**113,218**
Net book values						
As at December 31, 2018	107,257	–	135	40	42	107,474
As at June 30, 2019	**103,004**	**–**	**99**	**19**	**35**	**103,157**

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 in Q2 2019 (Q2 2018: $0.05 million) and $0.1 million in the six months ended June 30, 2019 (six months ended June 30, 2018: $0.1 million) in general and administrative expenses.

11

TRADE AND OTHER PAYABLES

$'000	AS AT JUNE 30, 2019	DECEMBER 31, 2018
Songas	**1,769**	1,785
Other trade payables	**2,172**	2,725
Trade payables	**3,941**	4,510
TPDC Profit Gas entitlement, net	**36,560**	40,260
Accrued liabilities	**14,536**	14,864
	55,037	59,634

TPDC share of Profit Gas

$'000	AS AT JUNE 30, 2019	DECEMBER 31, 2018
TPDC share of Profit Gas	**41,114**	40,606
Less "Adjustment Factor"	**(4,554)**	(346)
TPDC share of Profit Gas payable	**36,560**	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 $1.6 million (Q2 2018: $1.5 million) and $3.1 million for the six months ended June 30, 2019 (six months ending June 30, 2018: $3.1 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 $0.4 million (Q2 2018: $0.6 million) and $1.3 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $3.7 million). The participatory interest charged in Q1 2018 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 to 6.45%. At June 30, 2019 the participatory interest included in accrued liabilities is $1.4 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	**JUNE 30, 2019**	DECEMBER 31, 2018
Loan principal	**60,000**	60,000
Deferred financing costs	**(1,252)**	(1,340)
Current portion of loan	**(4,760)**	(4,760)
	53,988	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:

	AS AT JUNE 30, 2019			AS AT DECEMBER 31, 2018		
Number of shares	Authorised *(000)*	Issued *(000)*	Amount *($'000)*	Authorised *(000)*	Issued *(000)*	Amount *($'000)*
Class A	**50,000**	**1,750**	**983**	50,000	1,750	983
Class B	**100,000**	**33,490**	**85,483**	100,000	33,506	85,525
First preference	**100,000**	**–**	**–**	100,000	–	–
Total Class A, Class B and first preference	**250,000**	**35,240**	**86,466**	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
Issued	2,007	5.00 to 5.32
Exercised	(263)	2.30 to 3.87
Outstanding as at June 30, 2019	**2,389**	**2.30 to 5.32**

The number outstanding, the weighted average remaining life, the number exercisable and the weighted average exercise prices of SARs at June 30, 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	142	0.50	142	2.30
3.02	120	1.51	–	3.02
3.87	120	3.51	30	3.87
5.00 to 5.32	2,007	3.51	–	5.03
2.30 to 5.32	**2,389**	**3.23**	**172**	**4.70**

Restricted Stock Units ("RSUs")

	RSUs *(000)*	Exercise Price *(CDN$)*
Outstanding as at December 31, 2018	88	0.01
Issued	206	0.01
Exercised	(63)	0.01
Outstanding as at June 30, 2019	**231**	**0.01**

The number outstanding, the number exercisable and the weighted average remaining life of RSUs at June 30, 2019 were as follows:

Exercise Price *(CDN$)*	Number outstanding *(000)*	Number exercisable *(000)*	Weighted average remaining contractual life *(years)*
0.01	**231**	**25**	**3.51**

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 31.2% to 45.3%; 0% dividend yield; 5% forfeiture; a closing stock price of CDN$6.10 per share.

	AS AT	
$'000	**JUNE 30, 2019**	DECEMBER 31, 2018
SARs	**1,321**	1,196
RSUs	**226**	364
	1,547	1,560

As at June 30, 2019 a total accrued liability of $1.5 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 $0.9 million (Q2 2018: $0.4 million) and $0.9 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $5.1 million) as stock- based compensation.

On June 10, 2019 the Company announced its intention to initiate a Normal Course Issuer Bid (the "NCIB") for purchase of its Class B shares. Purchases made pursuant to the NCIB will not exceed 1,000,000 Class B shares, representing approximately 3% of the total outstanding Class B Shares. The NCIB will be in effect from June 14, 2019 to June 14, 2020. As at June 30, 2019 the Company had repurchased 16,500 shares pursuant to the NCIB at an average price of CDN$6.28 per share.

On May 29, 2019 the Company declared a dividend of CDN$0.06 per share on each of its Class A and Class B shares totaling $1.6 million and payable to the holders of record as of June 30, 2019 and paid prior to July 31, 2019.

On January 22, 2019 the Company declared a dividend of CDN$0.05 per share on each of its Class A and Class B shares totaling $1.3 million and payable to the holders of record as of March 31, 2019 and 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 and Class B shares totaling $16.9 million and payable to the holders of record as of January 31, 2018 paid on February 7, 2018.

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EARNINGS PER SHARE

('000)	**2019**	2018
	AS AT JUNE 30	
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 $6.7 million (Q2 2018: $12.5 million) and a weighted average number of Class A and Class B shares outstanding during the quarter ended June 30, 2019 of 35,255,419 (Q2 2018: 35,256,432). The calculation of earnings per share for the six months ended June 30, 2019 is based on a net income of $9.5 million (six months ended June 30; 2018: $7.9 million) and a weighted average number of Class A and Class B shares outstanding for the six months ended June 30, 2019 of 35,255,923 (six months ended June 30, 2018: 35,256,432).

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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 $0.1 million (Q2 2018: $0.1 million) and $0.1 million for the six months ended June 30, 2019 (six months ended June 30, 2018: $0.2 million) was incurred with this firm for services provided.

As at June 30, 2019 the Company has a total of $0.1 million (December 31, 2018: $0.04 million) recorded in trade and other payables in relation to the related party.

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 (201.7 Bcf as at June 30, 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.

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. The Company is finalizing 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 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.

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. This includes the installation of a refrigeration unit at the Songas Gas processing plant at an estimated cost of $8.5 million and well workovers with an estimated cost of $13.6 million. A total of $2.2 million was incurred on the refrigeration project in 2019 (2018: $4.2 million) which is scheduled for completion in Q3 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. The refrigeration unit installation was completed in early July and is currently undergoing final testing and acceptance.

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

Italy

As a result of the delays in developing the Italian permit due to changes in the Italian environmental regulations, the Company relinquished the rights to farm-in on the Central Adriatic permit in Q2 2019 and has no further capital obligations relating to Italian operations. The companies used for the Italian operations are in the process of being wound up.

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	14.1	43.0 [(3)]
VAT	2008-10	Output VAT on imported services and SSI Operatorship services.	2.7	2.7	5.4 [(4)]
			32.9	17.5	50.4

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 $50.4 million (December 31, 2018: $50.1 million). No significant changes occurred during the three months ended 30 June 2019.

(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;

(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 Appeal Board has set the hearing date of August 28, 2019. 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 ($8.4 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 ($6.5 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 ($11.2 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 $4.8 million and tax on repatriated income $3.1 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 ($5.3 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. Subsequent to quarter end, TRA responded to the Company's notice of objection by confirming their assessment. The Company has replied to TRA affirming its position and urged TRA to amend the assessment. The Company is now awaiting a 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, 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 JUNE 30		SIX MONTHS ENDED JUNE 30	
$'000	**2019**	2018	**2019**	2018
Reversal of provision for doubtful accounts	**(3,498)**	(13,439)	**(3,498)**	(13,439)
Decrease in trade and other receivables	**955**	8,340	**1,601**	7,231
Decrease in prepayments	**116**	137	**435**	59
Decrease in trade and other payables	**(6,180)**	(3,739)	**(6,371)**	(7,082)
Increase (decrease) in tax payable	**1,616**	1,039	**2,644**	(568)
Decrease (increase) in long-term receivables	**7**	4	**(33)**	17
	(6,984)	(7,658)	**(5,212)**	(13,782)

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 $15.4 million cash (net of closing adjustments) and $4.0 million of Swala convertible preference shares pursuant to a share purchase agreement. The preference shares 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 June 30, 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.

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. The Company terminated this right on March 31, 2019.

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

	AS AT	
$'000	**JUNE 30, 2019**	DECEMBER 31, 2018
Balance, beginning of period	**471**	–
Recorded at the date of disposition	**–**	178
Share of post-disposition income	**1,016**	293
Dividends paid	**(952)**	–
Balance, end of period	**535**	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
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Linda Beal
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London, United Kingdom

Jay Lyons
Non-Executive Director

Vancouver, British Columbia
Canada

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