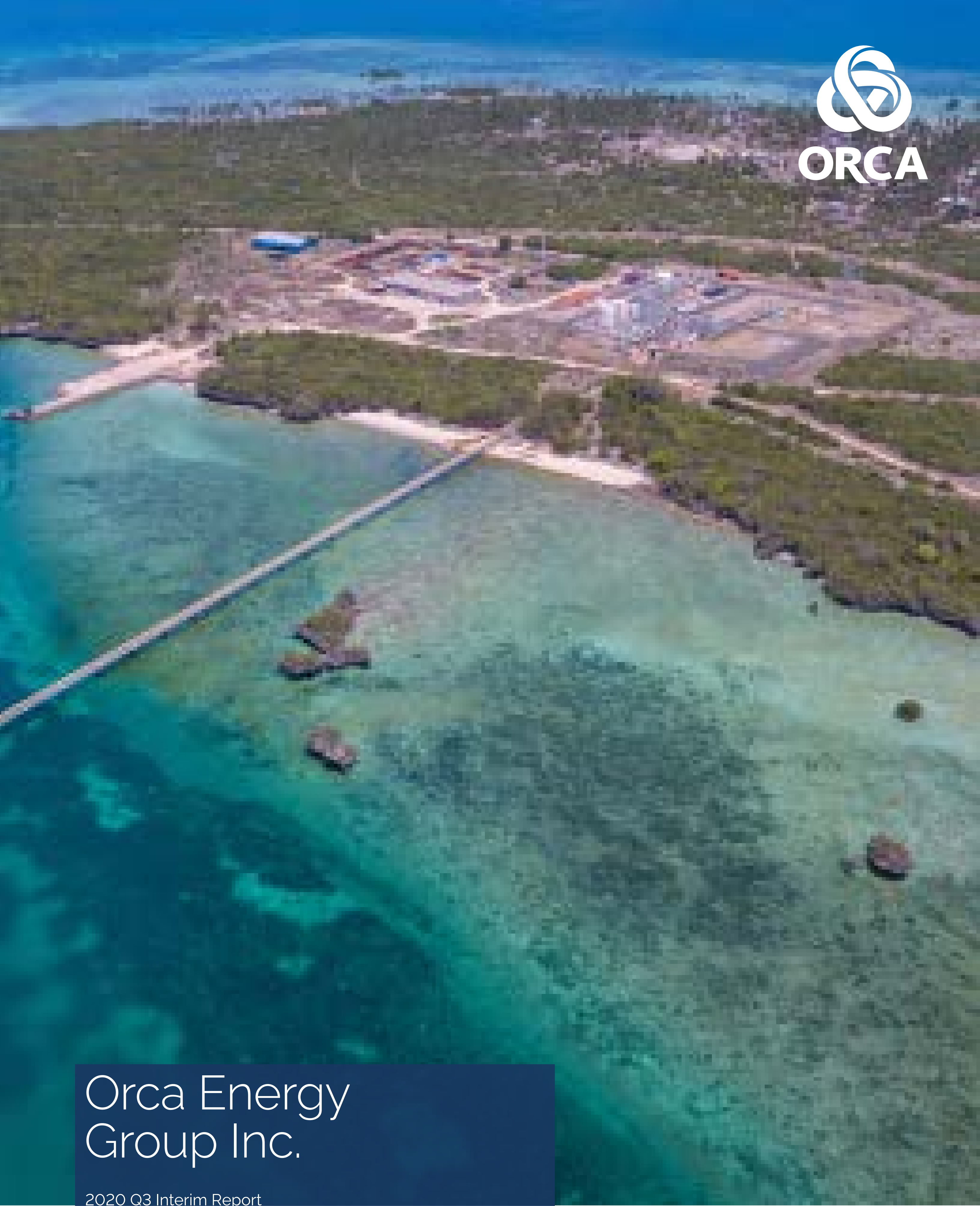
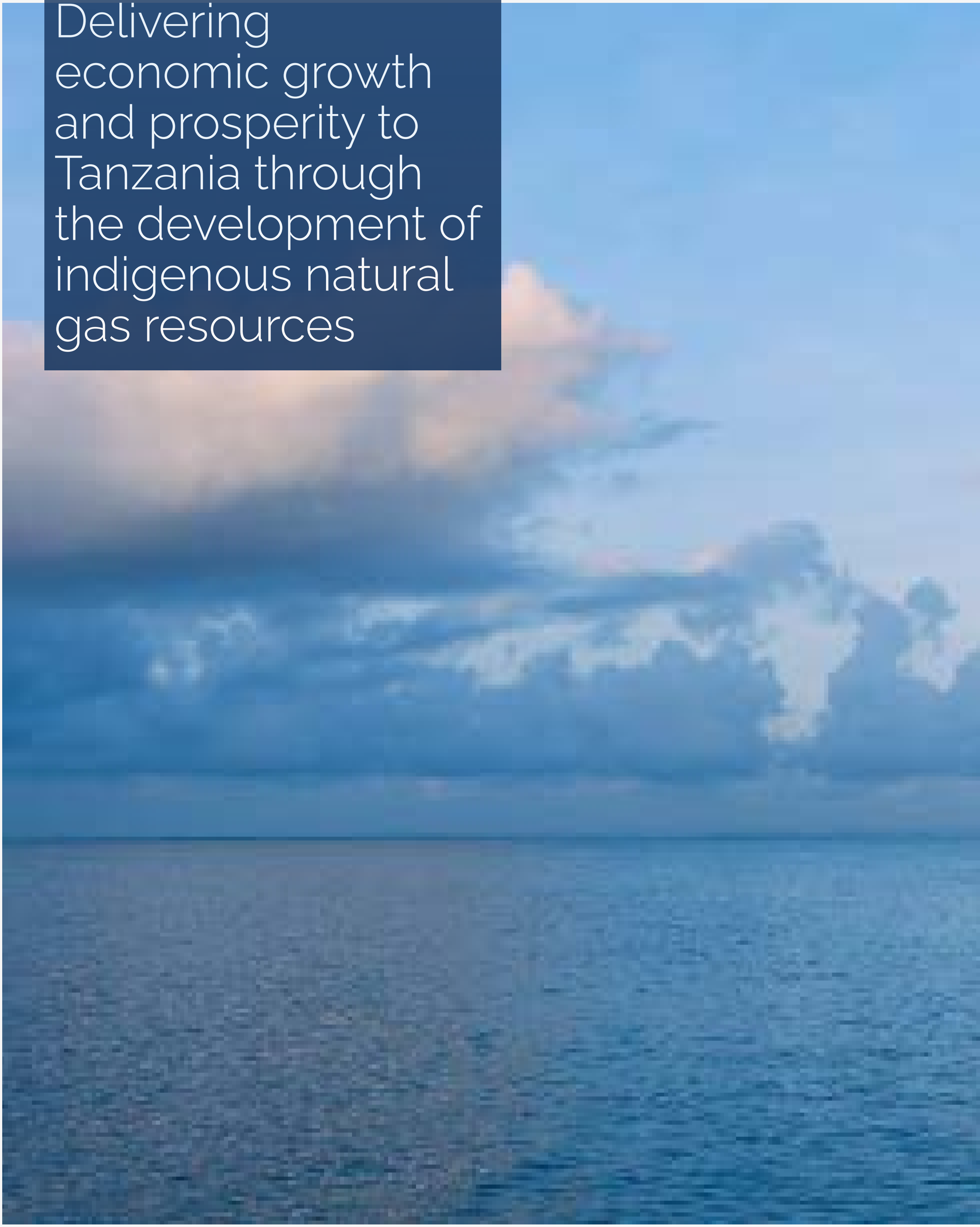


Orca Energy Group Inc.

2020 Q3 Interim Report

Delivering economic growth and prosperity to Tanzania through the development of indigenous natural gas resources



In This Report

For more information go to our website:
www.orcaenergygroup.com

MANAGEMENT'S DISCUSSION & ANALYSIS

THIS MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND NOTES FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TOGETHER WITH THE MD&A FOR THE YEAR ENDED DECEMBER 31, 2019. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON NOVEMBER 18, 2020. ALL AMOUNTS ARE REPORTED IN US DOLLARS ("$") UNLESS INDICATED OTHERWISE.

THIS MD&A CONTAINS NON-GAAP MEASURES AND FORWARD-LOOKING INFORMATION. READERS ARE CAUTIONED THAT THIS MD&A SHOULD BE READ IN CONJUNCTION WITH THE DISCLOSURE BELOW UNDER THE HEADINGS "NON-GAAP MEASURES", "FORWARD-LOOKING INFORMATION AND STATEMENT" AND "GLOSSARY" INCLUDED AT THE END OF THIS MD&A.

Nature of Operations

The principal asset of Orca Energy 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 held by a subsidiary, PanAfrican Energy Tanzania Limited ("PAET"). 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 Gas 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 Infrastructure").

Songas utilizes the Protected Gas as fuel for its gas turbine electricity generators 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 wholly owned by the GoT with oversight by the Ministry of Energy ("MoE"). TANESCO is responsible for the majority of electricity generation, transmission and distribution throughout Tanzania. Natural gas has become an integral component of TANESCO's power generation fuel mix. Despite the increase in hydro power earlier this year, gas remains a more reliable source of supply and is a considerably more cost-effective alternative to liquid fuels which have now been largely displaced as a power source in Tanzania. The Company currently supplies Additional Gas directly to TANESCO by way of the Portfolio Gas Supply 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. The quantity of gas the Company supplies to Songas and TANESCO via the Songas Infrastructure and the National Natural Gas Infrastructure ("NNGI") is subject to gas available from other suppliers and to meteorological conditions and the resultant amount of hydro power generated. During the first nine months of 2020, the Company supplied gas which generated approximately 37% (nine months ended September 30, 2019: 50%) of all electrical power generated in Tanzania and approximately 67% (nine months ended September 30, 2019: 73%) of all power generated by gas in Tanzania.

In May 2019 the Company signed a new long-term gas sales agreement ("LTGSA") with TPDC. The Company commenced supplying gas to TPDC under the LTGSA in September 2019. The LTGSA initially provided 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 it is processed before being transported to Dar es Salaam for power and industrial use. On September 25, 2019 the Company reached an agreement with TPDC to increase the maximum daily quantity of Additional Gas that can be supplied under the LTGSA to 30 MMcfd. Prior to signing the LTGSA, the processing and distribution of natural gas volumes had been restricted by limitations of the Songas Infrastructure. On August 31, 2020, the Company agreed a 12-month arrangement with TPDC to allow the consumption of increased volumes of gas, up to the production limits of the aligned well-stock, without a concomitant increase in the Take or Pay threshold, thus in uncertain times, allowing TPDC greater flexibility to consume greater volumes of less expensive gas, without the associated penalties should demand decline. The arrangement may be extended after 12-months subject to TPDC meeting certain conditions regarding the LTGSA.

In addition to supplying gas to TPDC, Songas and TANESCO, the Company has developed to-date 46 contracts to supply gas to Dar es Salaam's industrial market.

The Company continues to monitor the impact of the coronavirus pandemic ("COVID-19") on its business and the related economic and social disruption, volatility in financial markets, potential disruption to global supply chains, and the ability to directly and indirectly staff the Company's day to day operations. There has been no significant impact on the Company's operations to date because of COVID-19, however the Company did experience a minor decrease in industrial sales because of COVID-19. The current challenging economic climate may lead to further adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and ability to generate income and cash flows in the future. The current volatility in commodity prices and uncertainty regarding the timing of recovery creates inherent challenges with the preparation of financial forecasts (see "Business Risks").

Financial and Operating Highlights for the Three and Nine Months Ended September 30, 2020

	Three months ended September 30		% Change	Nine months ended September 30		% Change
(Expressed in $'000 unless indicated otherwise)	2020	2019	Q3/20 vs Q3/19	2020	2019	Ytd/20 vs Ytd/19
OPERATING						
Daily average gas delivered and sold *(MMcfd)*	**60.9**	63.4	(4)%	**56.0**	60.5	(7)%
Industrial	**13.4**	15.1	(11)%	**12.8**	13.3	(4)%
Power	**47.5**	48.3	(2)%	**43.2**	47.2	(8)%
Average price *($/mcf)*						
Industrial	**7.41**	7.84	(5)%	**7.41**	8.03	(8)%
Power	**3.46**	3.48	(1)%	**3.45**	3.42	1%
Weighted average	**4.33**	4.52	(4)%	**4.36**	4.44	(2)%
Operating netback *($/mcf)*[1]	**2.98**	2.50	19%	**2.70**	2.60	4%
FINANCIAL						
Revenue	**20,859**	21,453	(3)%	**55,894**	62,383	(10)%
Net income attributable to shareholders	**1,487**	2,583	(42)%	**20,386**	12,355	65%
per share – basic and diluted *($)*	**0.06**	0.07	(14)%	**0.72**	0.35	106%
Net cash flows from operating activities	**12,793**	7,603	68%	**27,136**	29,822	(9)%
per share – basic and diluted *($)*	**0.48**	0.22	118%	**0.95**	0.85	12%
Adjusted funds flow from operations[1]	**11,847**	10,180	16%	**26,796**	29,734	(10)%
per share – basic and diluted *($)*	**0.44**	0.29	52%	**0.93**	0.85	9%
Capital expenditures	**9,412**	652	1,344%	**10,906**	3,157	245%
Weighted average Class A and Class B Shares *('000)*	**26,138**	34,914	(25)%	**28,381**	34,931	(19)%

	As at September 30, 2020	As at December 31, 2019	% Change
Working capital (including cash)	**79,236**	106,972	(26)%
Cash and cash equivalents	**98,534**	93,899	5%
Investments in short-term bonds	**–**	44,756	(100)%
Long-term loan	**54,191**	54,057	0%
Outstanding shares *('000)*			
Class A	**1,750**	1,750	0%
Class B	**24,388**	32,557	(25)%
Total shares outstanding	**26,138**	34,307	(24)%

[1] Please refer to Non-GAAP measures section of the Management's Discussion and Analysis ("MD&A") for additional Information.

MANAGEMENT'S DISCUSSION & ANALYSIS CONTINUED

Financial and Operating Highlights for Q3 2020

- On August 3, 2020 the Company signed a contract for installation of compression on the Songas gas processing facility for a total value of $38 million of which $13.9 million has been spent to date. Compression is currently planned for installation prior to the end of Q2 2022 and will allow maximum production volumes of approximately 102 MMcfd to be sustained through the Songas plant, with the possibility to expand well deliverability to 172 MMcfd by increasing the amount of gas currently being delivered through the NNGI. The forecasted expenditures under this contract are $11.4 million in Q4 2020 to initiate the purchase of long-lead items, $9.5 million in 2021 upon delivery and inspection of the equipment and $3.8 million in 2022 upon completion of installation and testing.
- During Q3 2020 the Company announced its intention to solely focus on the continued value maximization through the optimization and monetization of the Company's rights to develop the Songo Songo gas field in Tanzania and to suspend ongoing efforts to acquire and develop an integrated gas business in other African countries. Since February 2018 the Company has distributed approximately CDN$92 million in dividends and share buybacks and maximizing shareholder returns and regular distributions will continue to be a core part of our strategy moving forward.
- Revenue decreased by 3% for Q3 2020 and by 10% for the nine months ended September 30, 2020 compared to the same prior year periods. The decrease is primarily a result of decreased sales to TANESCO under the PGSA and a smaller current income tax adjustment due to lower gross field revenues. Gas deliveries decreased by 4% for Q3 2020 and by 7% for the nine months ended September 30, 2020 compared to the same prior year periods. The decrease in gas delivery volumes was primarily due to the increase in hydro power generated during the first eight months of the year as a result of higher than normal rainfall in 2020 compared to 2019. Gas delivery volumes returned to normal levels in September 2020 with the advent of the dry season and corresponding reduction in available hydro power.
- Net income attributable to shareholders decreased 42% for Q3 2020 but increased 65% for the nine months ended September 30, 2020 compared to the same prior year periods. The decrease for Q3 2020 was primarily a consequence of the decrease in revenue and an increase in finance expense. The finance expense increase is primarily a result of the Tanzanian Revenue Authority ("TRA") issuing an Agency Notice for $5.3 million obligating the Company's bank to release funds from the Company's bank account to the TRA. The Company's view supported by our legal advisors is that this action was inappropriate as the dispute is still in process. Based on the opinion of the legal advisors that the Company has better than a 50% chance of winning the dispute associated with the Agency Notice, the Company has recorded a receivable from the TRA for the amount taken from our bank account. This receivable has been fully provided for as the timing for collecting the receivable is uncertain. The increase in net income for the nine months ended September 30, 2020 was primarily due to the collection of $16.4 million of TANESCO ($1.6 million in the current quarter) and $1.0 million of Songas arrears previously provided for offsetting the decrease in revenue during the period.
- Net cash flows from operating activities increased 68% for Q3 2020 but decreased by 9% for the nine months ended September 30, 2020 compared to the same prior year periods. The fluctuations are primarily a result of changes in non-cash operating working capital. The increase in Q3 2020 is primarily a consequence of the decrease in trade and other receivables while the decrease for the nine months ended September 30, 2020 was primarily due to the payment of Additional Profit Tax ("APT") of $11.9 million in Q1 2020.
- Adjusted funds flow from operations increased by 16% for Q3 2020 and decreased by 10% for the nine months ended September 30, 2020 compared to the same prior year periods. The increase in Q3 2020 is primarily a result of the 19% increase in operating netback over Q3 2019 which offset the 3% decrease in revenue during the same periods. The decrease between the nine month periods is primarily related to the decrease in revenue.
- Capital expenditures for Q3 2020 were $9.4 million (Q3 2019: $0.7 million) and $10.9 million for the nine months ended September 30, 2020 (nine months ended September 30, 2019: $3.2 million). The capital expenditures in 2020 primarily relate to the flowline decoupling construction and payments under the compression contract. The capital expenditures in 2019 primarily relate to the refrigeration project.
- The Company exited the period in a stable financial position with $79.2 million in working capital (December 31, 2019: $107.0 million), cash and cash equivalents of $98.5 million (December 31, 2019: $93.9 million), short-term investments of $ nil (December 31 ,2019: $44.8 million) and long-term debt of $54.2 million (December 31, 2019: $54.1 million). The decrease in working capital and short-term investments was primarily related to the substantial issuer bid ("SIB") completed in March 2020.
- As at September 30, 2020 the current receivable from TANESCO was $ nil (December 31, 2019: $ nil). TANESCO's long-term trade receivable as at September 30, 2020 was $31.0 million with a provision of $31.0 million compared to $47.5 million (provision of $47.5 million) as at December 31, 2019. Subsequent to September 30, 2020 the Company has invoiced TANESCO $2.7 million for October 2020 gas deliveries and TANESCO has paid the Company $4.1 million.
- The Company declared dividends of CDN$0.06 per share on each of its Class A common voting shares ("Class A Shares") and Class B subordinate voting shares ("Class B Shares") for a total of $2.5 million to the holders of record as of March 31, 2020 and June 30, 2020 (paid on April 30, 2020 and July 15, 2020 respectively). On September 17, 2020 the Company declared a dividend of CDN$0.08 per share on each of its Class A Shares and Class B Shares for a total of $1.6 million to the holders of record as of September 30, 2020 paid on October 15, 2020.
- On March 12, 2020 the Company announced the results of the SIB where it took up and paid for 7,692,297 Class B Shares at CDN$6.50 per Class B Share. The aggregate purchase of Class B Shares totalled CDN$50.0 million representing 23.6% of the Company issued and outstanding Class B Shares and 22.4% of the total number of the Company issued and outstanding shares.
- On April 6, 2020 Orca received approval from the TSX Venture Exchange ("TSXV") to amend its normal course issuer bid ("NCIB") commenced on June 14, 2019 to allow it to purchase additional Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. On June 19, 2020 Orca announced the completion of the NCIB under which Orca repurchased 477,500 Class B Shares at a weighted average price of CDN$5.32 per Class B Share for aggregate consideration of approximately CDN$2.5 million.

Operating Volumes

The average gross daily sales volume decreased by 4% for Q3 2020 and by 7% for the nine months ended September 30, 2020 over the comparable prior year periods. The decrease in gross sales volume was primarily due to decreased sales of natural gas to TANESCO partially offset by increased sales to TPDC through the NNGI.

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

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Gross sales volume *(MMcf)*				
Industrial sector	**1,235**	1,385	**3,496**	3,630
Power sector	**4,373**	4,446	**11,844**	12,874
	5,608	5,831	**15,340**	16,504
Gross daily sales volume average *(MMcfd)*				
Industrial sector	**13.4**	15.1	**12.8**	13.3
Power sector	**47.5**	48.3	**43.2**	47.2
	60.9	63.4	**56.0**	60.5

Industrial Sector

Industrial sector sales volumes decreased 11% for Q3 2020 and 4% for the nine months ended September 30, 2020 compared to the same prior year periods. The decrease was primarily due to the reduction in demand for services and products, including natural gas as a consequence of the COVID-19 pandemic. This was partially offset by an increase in the number of industrial customer contracts entered into during the year.

Power Sector

Power sector sales volumes decreased by 2% for Q3 2020 and by 8% for the nine months ended September 30, 2020 compared to the same prior year periods. The decrease was primarily due to decreased gas sales to TANESCO partially offset by increased sales to TPDC though the NNGI.

Protected Gas Volumes

Protected Gas volumes decreased by 23% to 2,907 MMcf (31.6 MMcfd) for Q3 2020 compared to 3,774 MMcf (41.0 MMcfd) for the quarter ended September 30, 2019 and decreased by 19% to 8,803 MMcf (32.1 MMcfd) for the nine months ended September 30, 2020 compared to 10,878 MMcf (39.8 MMcfd) for the nine months ended September 30, 2019. The Company receives no revenue for Protected Gas volumes however the volumes are required to calculate total gas produced from the reservoir and the allocation of certain production expenses between Protected Gas and Additional Gas.

Commodity Prices

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

	Three months ended September 30		Nine months ended September 30	
$/mcf	2020	2019	2020	2019
Average sales price				
Industrial sector	**7.41**	7.84	**7.41**	8.03
Power sector	**3.46**	3.48	**3.45**	3.42
Weighted average price	**4.33**	4.52	**4.36**	4.44

Industrial Sector

The average Industrial sector sales price decreased by 5% for Q3 2020 and by 8% for the nine months ended September 30, 2020 compared to the same prior year periods. The decrease in prices is primarily due to the underlying decrease in the price of heavy fuel oil against which most of the Industrial customer contracts are priced combined with a reset of the caps and floors for the majority of industrial contracts which also reduced prices compared to the prior year periods. The caps and floors were reduced to ensure gas remained competitive against alternate fuel sources and other suppliers.

Power Sector

The average Power sector sales price decreased by 1% for Q3 2020 and increased by 1% for the nine months ended September 30, 2020 compared to the same prior year periods. The Company's sales margins to the Power sector increased period over period due to increased deliveries through the NNGI for which the Company does not pay processing and transportation tariffs.

MANAGEMENT'S DISCUSSION & ANALYSIS CONTINUED

Revenue

Under the terms of the PSA the Company is responsible for invoicing, collecting and allocating the revenue from Additional Gas sales (See "Principal Terms of the PSA and Related Agreements" in the MD&A within the 2019 annual report).

The Company is entitled to recover all costs incurred on the exploration, development and operations of the project ("Cost Gas revenue") up to a maximum of 75% of the net field revenue (gross field revenue less the tariff for processing and pipeline infrastructure) prior to allocating the remaining net field revenue between TPDC and the Company ("Profit Gas revenue"). Any costs not recovered in a period are carried forward for recovery out of future revenues. Once the Cost Gas revenue has been recovered, TPDC is able to recover any pre-approved marketing costs. Currently there are no pre-approved marketing costs for TPDC.

The average Additional Gas sales volumes for the quarters ended September 30, 2020 and September 30, 2019 as well as for the nine months ended September 30, 2020 and September 30, 2019 were above 50 MMcfd which entitled the Company to a 55% share of Profit Gas revenue. The Company was allocated a total of 80% of the net field revenue for Q3 2020 (Q3 2019: 64%) and a total of 73% of the net field revenue for the nine months ended September 30, 2020 (nine months ended September 30, 2019: 67%).

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

	Three months ended September 30		Nine months ended September 30	
$'000	2020	2019	2020	2019
Industrial sector	**9,145**	10,848	**25,896**	29,156
Power sector	**15,143**	15,490	**40,920**	44,084
Gross field revenue	**24,288**	26,338	**66,816**	73,240
TPDC share of revenue	**(4,559)**	(8,807)	**(16,863)**	(21,987)
Company operating revenue	**19,729**	17,531	**49,953**	51,253
Current income tax adjustment	**1,130**	3,922	**5,941**	11,130
	20,859	21,453	**55,894**	62,383

Revenue decreased by 3% for Q3 2020 and by 10% for the nine months ended September 30, 2020 compared to the same prior year periods. The decrease is largely a consequence of decreased sales to TANESCO under the PGSA and smaller current income tax adjustments.

Revenue as presented on the Consolidated Interim Statements of Comprehensive Income is calculated by adjusting Company operating revenue by the current income tax. The Company is liable for income tax in Tanzania, but under the terms of the PSA, TPDC's share of revenue is reduced by the current tax payable grossed up at 30%.

Production, Distribution and Transportation Expenses

The production, distribution and transportation costs are detailed in the table below:

	Three months ended September 30		Nine months ended September 30	
$'000	2020	2019	2020	2019
Operating costs	**602**	264	**1,695**	949
Tariff for processing and pipeline infrastructure	**1,773**	2,081	**4,953**	5,828
Ring-main distribution costs	**659**	549	**1,736**	1,608
	3,034	2,894	**8,384**	8,385

Included in operating costs are well maintenance costs, an allocation of PSA licence costs, regulatory fees, insurance, certain costs associated with evaluation of the reserves and the costs of personnel not recoverable from Songas. Operating costs are allocated between Protected Gas (recoverable from Songas) and Additional Gas in proportion to their respective sales during the period.

Operating Netback

The operating netback per mcf before general and administrative expenses, tax and APT is detailed in the table below (see "Non-GAAP measures"):

$/mcf	Three months ended September 30 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Gas price – Industrial	**7.41**	7.84	**7.41**	8.03
Gas price – Power	**3.46**	3.48	**3.45**	3.42
Weighted average price for gas	**4.33**	4.52	**4.36**	4.44
TPDC Profit Gas entitlement	**(0.81)**	(1.51)	**(1.11)**	(1.33)
Production, distribution and transportation expenses	**(0.54)**	(0.51)	**(0.55)**	(0.51)
	2.98	2.50	**2.70**	2.60

The operating netback increased by 19% for Q3 2020 and by 4% for the nine months ended September 30, 2020 over the comparable prior year periods. The increase is mainly due to the lower TPDC Profit Gas entitlement as a consequence of higher capital expenditures incurred and, as a result, higher cost recovery during the nine months ended September 30, 2020.

General and Administrative Expenses

General and administrative expenses are detailed in the tables below:

$'000	Three months ended September 30 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Employee and related costs	**2,441**	1,259	**5,899**	4,779
Office costs	**1,023**	1,173	**2,800**	3,386
Marketing and business development costs	**259**	696	**749**	1,385
Reporting, regulatory and corporate	**55**	649	**1,017**	1,289
	3,778	3,777	**10,465**	10,839

General and administrative expenses are split between head office and Tanzania. A significant percentage of administration expenses relate to office and management costs that support our operations in Tanzania and are cost recoverable under the PSA.

$'000	Three months ended September 30 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Tanzania	**1,829**	2,046	**4,868**	6,038
Corporate	**1,949**	1,731	**5,597**	4,801
	3,778	3,777	**10,465**	10,839

General and administrative expenses averaged $1.3 million per month during Q3 2020 (Q3 2019: $1.3 million) and $1.2 million for the nine months ended September 30, 2020 (nine months ended September 30, 2019: $1.2 million). The 94% increase in employee and related costs in Q3 2020 over Q3 2019 was primarily due to one-time termination settlement costs with the former CEO and employees who had worked on business development as a result of the decision to focus on Tanzanian operations and suspend expansion plans to other countries in Africa. Correspondingly, there was a 63% decrease in marketing and business development costs during Q3 2020. The 92% decrease in reporting, regulatory and corporate costs in Q3 2020 compared to Q3 2019 was primarily due to higher level of costs incurred due to the strategic review work that was undertaken in 2019.

Stock Based Compensation

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

	Three months ended September 30		Nine months ended September 30	
$'000	2020	2019	2020	2019
Stock appreciation rights ("SARs")	**(222)**	659	**(10)**	1,456
Restricted stock units ("RSUs")	**140**	155	**257**	285
	(82)	814	**247**	1,741

As at September 30, 2020 a total of 1,389,833 SARs were outstanding compared to 2,321,833 as at December 31, 2019. During the nine months ended September 30, 2020, 160,000 of new SARs with the exercise price of CDN$5.02 were issued. 585,333 SARs with exercise prices ranging from CDN$3.02 to CDN$5.00 were exercised and 506,667 SARs with exercise prices ranging from CDN$5.00 to CDN$6.65 were forfeited. As at September 30, 2020 a total of 162,700 RSUs were outstanding compared to 234,700 at December 31, 2019. During the nine months ended September 30, 2020 20,500 of new RSUs with an exercise price of CDN$0.01 were issued, 48,500 RSUs were exercised and 44,000 RSUs were forfeited.

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 SARs and RSUs at the reporting date, the following assumptions have been made: a risk free rate of interest of 1.0%, stock volatility of 34.08% to 42.86%, 0% dividend yield, 5% forfeiture and a closing price of CDN$5.80 per Class B Share.

As at September 30, 2020 a total accrued liability of $1.9 million (December 31, 2019: $2.5 million) has been recognized in relation to SARs and RSUs.

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 September 30, 2020 the estimated proved reserves remaining to be produced over the term of the PSA licence were 210 Bcf (December 31, 2019: 234 Bcf). The average depletion rate of $0.70/mcf for the quarter and the nine months ended September 30, 2020 compared to $0.63/mcf for the comparable prior year periods.

	Three months ended September 30		Nine months ended September 30	
$'000	2020	2019	2020	2019
Oil and natural gas interests	**3,931**	3,688	**10,752**	10,439
Office and other	**21**	34	**83**	105
Right-of-use assets	**116**	35	**324**	105
	4,068	3,757	**11,159**	10,649

Finance Income and Expense

Finance income is detailed in the table below:

	Three months ended September 30		Nine months ended September 30	
$'000	2020	2019	2020	2019
Interest income	**185**	214	**720**	429
Investment income	**–**	565	**305**	1,783
Reversal of provision for doubtful accounts	**1,567**	–	**17,473**	3,498
	1,752	779	**18,498**	5,710

The reversal of the provision for doubtful accounts of $1.6 million (Q3 2019: $ nil) follows collection of TANESCO long-term receivables which had been previously provided for and represents the excess of receipts over invoices for gas delivered during Q3 2020.

At September 30, 2020 the Company did not have investments in short-term bonds (December 31, 2019: $44.8 million invested with maturity dates from February 2020 to July 2020 and a range of interest rates from 1.375% to 2.75%). The $0.3 million investment income for the nine months ended September 30, 2020 (nine months ended September 30, 2019: $1.8 million) includes interest earned of $0.3 million (nine months ended September 30, 2019: $1.1 million) and amortization of the discount on the acquisition of the bonds of $ nil (nine months ended September 30, 2019: $0.7 million).

Finance Income and Expense continued

Finance expense is detailed in the table below:

	Three months ended September 30		Nine months ended September 30	
$'000	2020	2019	2020	2019
Base interest expense	**1,469**	1,579	**4,363**	4,483
Participation interest (recovery) expense	**(132)**	692	**1,082**	1,951
Lease interest expense	**24**	8	**72**	24
Interest expense	**1,361**	2,279	**5,517**	6,658
Net foreign exchange (gain) loss	**(359)**	95	**(496)**	280
Indirect tax	**201**	323	**1,670**	995
Impairment of receivable	**5,337**	–	**5,337**	–
	6,540	2,697	**12,028**	7,933

The base interest expense decrease is a result of the long-term loan repayment of $4.8 million made during Q4 2019. Base and participation interest expense relate to the long-term loan (the "Loan") from the International Finance Corporation ("IFC"). 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 interest expense is payable quarterly in arrears. The participation interest expense is paid annually in arrears. It equates to 6.4% of PAET's net cash flows from operating activities net of net cash flows used in investing activities for the year. Such participation interest will continue until October 15, 2026 regardless of whether the Loan is repaid prior to its contractual maturity date. The recovery of the participation interest in Q3 2020 is a result of recalculating the amount due reflecting the increase in capital spending during Q3 2020 and forecasted spending for Q4 2020.

Net foreign exchange gains and losses are the result of transactions in foreign currencies being recorded at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at period-end rates. Non-monetary items are translated at historic rates, unless such items are carried at market value, in which case they are translated using the exchange rates that existed when the values were determined. These foreign exchange losses and gains are recorded in finance expense.

The indirect tax is for value added tax ("VAT") associated with invoices to TANESCO under the take or pay provisions within the PGSA and for interest on late payments.

Impairment of receivable is a result of the TRA issuing an Agency Notice for $5.3 million obligating the Company's bank to release funds in favour of the TRA. The notice is subject to an ongoing dispute which, based on the opinion of the Company's legal advisors, has a better than a 50% chance of being resolved in favour of the Company. The Company has recorded the $5.3 million as other receivables and has fully provided for the amount due to the uncertainty of collecting the receivable.

Tax

Income Tax

	Three months ended September 30		Nine months ended September 30	
$'000	2020	2019	2020	2019
Current tax	**1,589**	3,118	**6,568**	8,910
Deferred tax	**859**	178	**1,060**	1,103

Under the terms of the PSA with TPDC and the GoT, 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 revenue 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 grossed up by 30%.

As at September 30, 2020 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 corporate tax rate, the Company has recognized a deferred tax liability of $16.2 million (December 31, 2019: $15.2 million). 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 revenue.

MANAGEMENT'S DISCUSSION & ANALYSIS CONTINUED

Tax continued

Additional Profits Tax

	Three months ended September 30		Nine months ended September 30	
$'000	2020	2019	2020	2019
APT	**937**	2,116	**3,465**	5,283

Under the terms of the PSA, APT is payable when the Company has recovered its costs plus a specified return out of Cost Gas revenue and Profit Gas revenue. 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 the percentage change in PPI.

The timing and the effective rate of APT depends on the realized value of Profit Gas which in turn depends on the level of expenditure. The Company provides for APT by 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. As at September 30, 2020 the current portion of APT payable was estimated at $9.7 million (December 31, 2019: $11.9 million) with a long-term APT payable of $26.1 million (December 31, 2019: $32.3 million).

The effective APT rate of 16.8% (Q3 2019: 19.7%) has been applied to the Company's Profit Gas of $5.6 million for Q3 2020 (Q3 2019: $10.8 million) and $20.6 million for the nine months ended September 30, 2020 (nine months ended September 30, 2019: $26.9 million). Accordingly, $0.9 million for the quarter ended September 30, 2020 (Q3 2019: $2.1 million) and $3.5 million for the nine months ended September 30, 2020 (nine months ended September 30, 2019: $5.3 million) of APT has been recorded in the Consolidated Interim Statements of Comprehensive Income.

Working Capital

	As at			
$'000		September 30, 2020		December 31, 2019
Cash and cash equivalents		**98,534**		93,899
Investment in short-term bonds		**–**		44,756
Trade and other receivables				
Songas		**7,912**	8,763	
TPDC		**4,887**	7,284	
TRA		**5,337**	–	
Industrial customers and other receivables		**12,073**	10,287	
Impairment of receivables	**(8,458)**	**21,751**	(4,167)	22,167
Prepayments		**4,728**		6,752
		125,013		167,574
Trade and other payables				
TPDC share of Profit Gas revenue[1]	**20,787**		33,134	
Songas	**1,875**		2,354	
Other trade payables and accrued liabilities	**11,526**		12,673	
Current portion of APT	**9,659**	**43,847**	11,940	60,101
Tax payable		**1,930**		501
		45,777		60,602
Working capital		**79,236**		106,972

[1] The balance of $20.8 million payable to TPDC is the liability for TPDC's share of Profit Gas revenue primarily related to unpaid gas deliveries to TANESCO net of $5.7 million previously recorded as tax recoverable. The majority of the settlement of this liability is dependent on receipt of payment from TANESCO for long-term arrears. In February 2020 a payment of $1.9 million, in May 2020 a payment of $6.5 million, in July 2020 a payment of $5.5 million and in October 2020 a payment of $1.0 million were made to TPDC for their share of Profit Gas revenue.

Financial Instruments

Current financial instruments of the Company include cash and cash equivalents, investment in short-term bonds, trade and other receivables, trade and other payables and tax payable. The carrying values of the financial instruments approximate their fair values due to their relatively short periods to maturity. There are no restrictions on the movement of cash from Jersey, Mauritius or Tanzania and the majority of the Company's cash is currently held outside of Tanzania.

Working Capital continued

Working Capital Requirements

The Company expects to have sufficient cash flow from operating activities to maintain adequate working capital to cover both short-term and long-term obligations, including forecast debt and interest payments ($1.4 million) and capital expenditure for the balance of 2020 ($11.4 million). The forecast capital expenditures for 2020 have decreased by $22.4 million from the forecast in the annual report as a result of deferring certain costs for the installation of compression and planned workovers until 2021. The Company has not incurred any losses from debtors to date in 2020 and does not expect to incur any for the balance of year.

TANESCO Receivable

As at September 30, 2020 the current receivable from TANESCO was $ nil (December 31, 2019: $ nil). During Q3 2020 and the nine-month period ended September 30, 2020 the amounts received from TANESCO were in excess of the revenue recognized for gas deliveries to TANESCO. The TANESCO long-term receivable as at September 30, 2020 is $31.0 million with a provision of $31.0 million compared to $47.5 million (with a provision of $47.5 million) as at December 31, 2019. In Q2 2020 the Company invoiced TANESCO $6.5 million (Q2 2019: $ nil) under the take or pay provision within the PGSA. This invoice has been recorded as a long-term receivable and been fully provided for as it does not meet revenue recognition criteria with respect to assurance of collectability. Subsequent to September 30, 2020 the Company has invoiced TANESCO $2.7 million for October 2020 gas deliveries and TANESCO has paid the Company $4.1 million.

Capital Expenditures

The capital expenditures in 2020 primarily relate to the compression project and flowline construction. The capital expenditures in 2019 primarily relate to the refrigeration project for the Songas Infrastructure and do not include increases from capitalized leases.

	Three months ended September 30		Nine months ended September 30	
$'000	2020	2019	2020	2019
Pipelines and infrastructure	**9,332**	648	**10,807**	3,146
Other capital expenditures	**80**	4	**99**	11
	9,412	652	**10,906**	3,157

Capital Requirements

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.

To sustain current levels of production beyond 2021, it is necessary to install compression facilities to maintain throughput of the Songas facilities over the remaining term of the PSA. Failure to add compression will gradually lead to a significant reduction in production as field pressure declines below the level required to deliver gas to the Dar es Salaam power sector and industrial customers. The compression is expected to be operational by the end of Q2 2022.

The Company is currently implementing a flowline decoupling project to install dedicated flowlines to onshore wells SS-10 and SS-11. These two wells have hitherto been coupled to the 4" flowlines used by wells SS-3 and SS-4. Decoupling and installing dedicated 6" flowlines to wells SS-10 and SS-11 is expected to increase production potential by approximately 10 MMcf/d at a cost of $1.3 million. The decoupling project is nearing completion and is expected to be concluded in Q4 2020.

The Company is evaluating options to remediate three onshore wells (SS-3, SS-4 and SS-10) which are affected by water and sand production and corrosion of their original carbon steel completions. Wells SS-3 and SS-4 are owned by Songas and are currently suspended and shut-in respectively. A decision on the timing and scope of the remedial work is subject to an ongoing, detailed sub-surface review, approval by the Board of Directors and agreement with Songas. Due to the timelines to deliver the sub-surface review, the decision is expected to be taken by the end of Q4 2020 with work commencing in 2021. The Company is also examining alternatives to working over wells SS-3 and SS-4, including plug and abandon, side-tracking or drilling an infill well to improve production rates.

At the date of this report, the Company's only significant outstanding contractual commitment is in relation to the $38.0 million fixed price turn-key compression contract, $13.3 million has been paid to date. The forecasted capital expenditures under this contract are $11.4 million in Q4 2020, $9.5 million in 2021 and $3.8 million in 2022.

MANAGEMENT'S DISCUSSION & ANALYSIS CONTINUED

Long-term Receivables

	As at	
$'000	September 30, 2020	December 31, 2019
VAT on Songas workovers	**2,205**	2,205
Lease deposit	**9**	45
	2,214	2,250

In 2017, based on agreement with TPDC, the Songas share of workover costs of $14.5 million was transferred to the cost pool to recover the costs via the PSA cost recovery mechanism. This resulted in $2.2 million relating to VAT on the workovers that had already been paid being reclassified as a long-term receivable. The Company continues to take action to collect the workover costs.

The following table details the amounts receivable from TANESCO that do not meet revenue recognition criteria and therefore are not recorded in the consolidated financial statements:

	As at	
$'000	September 30, 2020	December 31, 2019
Total amounts invoiced to TANESCO	**113,382**	118,861
Unrecognized amounts not meeting revenue recognition criteria[1]	**(82,355)**	(71,407)
Provision for doubtful accounts	**(31,027)**	(47,454)
	–	–

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

Long-term Loan

In 2015 PAET took out the Loan of $60 million with the IFC. The Loan was fully drawn down in 2016.

The Loan is to be repaid through six semi-annual payments of $5 million starting April 15, 2022 and one final payment of $25.2 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. The Loan is an unsecured subordinated obligation of PAET and is guaranteed by the Company to a maximum of $30 million. The guarantee may only be called upon by IFC at maturity in 2025 and, subject to IFC approval and receipt of all required regulatory approvals, the Company, at its discretion, may issue shares in fulfilment of all or part of the guarantee obligation in 2025. Pursuant to the sale of the non-controlling interest in the parent company of PAET, PAE PanAfrican Energy Corporation ("PAEM"), the Company agreed with the IFC to reduce the outstanding amount of the Loan by the percentage interest sold of 7.9% ($4.8 million) before the fourth anniversary of the first drawdown. PAET made this payment on October 16, 2019.

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

Outstanding Shares

The Class A Shares are convertible at any time at the option of the holder into Class B Shares on a one-for-one basis. Subject to the terms and conditions of conversion specified in the memorandum of association and articles of association of the Company, the Class B Shares are convertible into Class A Shares on a one for one basis if an offer is made to purchase Class A Shares that: (i) must, by reason of applicable securities legislation or the requirements of a stock exchange on which the Class A Shares are listed, be made to all or substantially all of the holders of Class A Shares; and (ii) is not made concurrently with an offer to purchase Class B Shares that is identical to the offer to purchase Class A Shares and that has no condition attached other than the right not to take up and pay for shares tendered if no shares are purchased pursuant to the offer for Class A Shares. The conversion right does not come into effect under certain events specified in the memorandum of association of the Company, including, without limitation, the prior delivery to the Company's transfer agent and to the Secretary of the Company of a certificate signed by one or more shareholders owning more than 50% of the then outstanding Class A Shares.

Following the completion of the SIB in March 2020 and NCIB in June 2020, there were a total of 1,750,495 Class A Shares and 24,387,460 Class B Shares outstanding as at September 30, 2020.

Cash Flow Summary

$'000	Three months ended September 30 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Operating activities				
Net income	**2,025**	2,950	**21,423**	13,460
Non-cash adjustments	**11,389**	7,230	**22,846**	19,772
Interest expense	**1,361**	2,279	**5,517**	6,658
Changes in non-cash working capital[1]	**(1,982)**	(4,856)	**(22,650)**	(10,068)
Net cash flows from operating activities	**12,793**	7,603	**27,136**	29,822
Net cash used in investing activities	**(9,614)**	(980)	**(10,913)**	(3,228)
Net cash (used in) from financing activities	**(5,968)**	12,478	**(12,022)**	(25,036)
(Decrease) increase in cash	**(2,789)**	19,101	**4,201**	1,558

[1] See Consolidated Interim Statements of Cash Flows.

The Company's net cash flows from operating activities increased by 68% for Q3 2020 and decreased by 9% for the nine months ended September 30, 2020 over the comparable prior year periods. The increase for Q3 2020 was mainly a result of fluctuations in non-cash working capital and was respectively offset by changes in net income. Changes in non-cash working capital for the nine months ended September 30, 2020 were affected by the payment of the current portion of APT of $11.9 million (nine months ended September 30, 2019: $ nil). Changes in cash from and used in financing activities are primarily a result of the SIB and NCIB being largely offset by the maturity of short-term bonds to cash.

Related Party Transactions

The Chairman of the Company's Board of Directors is counsel to a law firm that provides legal advice to the Company and its subsidiaries. Fees for services provided by this firm totalled $0.1 million during the quarter ended September 30, 2020 (Q3 2019: $0.1 million) and $0.8 million for the nine months ended September 30, 2020 (nine months ended September 30, 2019: $0.2 million).

As at September 30, 2020 the Company had a total of $0.1 million (December 31, 2019: $0.2 million) recorded in trade and other payables in relation to related parties.

Substantial Issuer Bid, Normal Course Issuer Bid and Dividends

During Q1, 2020 the Company repurchased and cancelled 7,692,297 Class B Shares at a weighted average price of CDN$6.50 per Class B Share under the SIB. This resulted in an aggregate purchase of CDN$50.0 million of Class B Shares representing 23.6% of the Company's issued and outstanding Class B Shares and 22.4% of the total number of the Company's issued and outstanding shares. Total cash payments of $38.2 million were applied to the capital stock, contributed surplus and accumulated income accounts. All issued capital stock is fully paid.

During Q2 2020 the Company completed an NCIB for its Class B Shares. Under the NCIB, the Company repurchased 477,500 Class B Shares at a weighted average price of CDN$5.32 per Class B Share for aggregate consideration of approximately CDN$2.5 million.

Dividend Summary

Declaration date	Record date	Payment date	Amount per share (*CDN$*)
September 17, 2020	September 30, 2020	October 15, 2020	0.08
June 22, 2020	June 30, 2020	July 15, 2020	0.06
February 25, 2020	March 31, 2020	April 30, 2020	0.06
November 28, 2019	December 31, 2019	January 31, 2020	0.06
September 17, 2019	September 30, 2019	October 31, 2019	0.06
May 29, 2019	June 30, 2019	July 31, 2019	0.06
January 22, 2019	March 31, 2019	April 30, 2019	0.05

MANAGEMENT'S DISCUSSION & ANALYSIS CONTINUED

Consolidation

The companies which are being consolidated for the purposes of this MD&A are:

Company	Incorporated	Holding
Orca Energy Group Inc.	British Virgin Islands	Parent Company
Orca Exploration UK Services Limited	United Kingdom	100%
PAE PanAfrican Energy Corporation	Mauritius	92%
PanAfrican Energy Tanzania Limited	Jersey	92%
Orca Exploration Italy Inc.[1]	British Virgin Islands	100%
Orca Exploration Italy Onshore Inc.[1]	British Virgin Islands	100%

1 The companies were wound up during Q2 2020.

Non-Controlling Interest

The Company sold 7.9% (7,933 Class A common shares) of PAEM to a wholly owned subsidiary of Swala Oil & Gas (Tanzania) plc. ("Swala") in 2018 for $15.4 million cash and $4.0 million of Swala convertible preference shares ("Preference Shares") pursuant to a share purchase agreement. The Preference Shares entitle the Company to a 10% per annum distribution payable 15 days after each quarter end, commencing from the closing date, January 16, 2018. Payment of the quarterly distributions is at the discretion of Swala based on funds available, however, the liability accrues if any amount is unpaid when due. If any distributable amount remains unpaid after December 31, 2021, the Company may demand settlement and Swala is obligated to comply by transferring and returning the Class A common shares of PAEM sold to Swala. The aggregate value of these shares will equal the amount of the outstanding distributions. As at September 30, 2020 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 from December 31, 2021 until all shares are redeemed. If at any time Swala does not redeem in cash the required number of Preference Shares, Swala is obligated to redeem the Preference Shares by transferring and returning the Class A common shares of PAEM sold to Swala. The aggregate value of these Class A common shares will equal the amount of any outstanding redemption.

There is no credit risk associated with the Preference Shares as a consequence of Swala having the obligation to redeem them by returning the equivalent value of Class A common shares for any overdue and outstanding amounts. A reconciliation of the non-controlling interest is detailed below:

	As at	
$'000	September 30, 2020	December 31, 2019
Balance, beginning of period	**163**	(513)
Share of post-disposition income	**1,037**	1,628
Dividends paid	**–**	(952)
Balance, end of period	**1,200**	163

Contingencies

Taxation

					As at	
Amounts in $'millions					September 30, 2020	December 31, 2019
Area	Period	Reason for dispute	Principal	Interest	Total	Total
Pay-As-You-Earn ("PAYE") tax	2008-16	PAYE tax on grossed-up amounts in staff salaries which are contractually stated as net.	0.9	0.4	**1.3**	1.5
Withholding tax ("WHT")	2005-16	WHT on services performed outside of Tanzania by non-resident persons, on deemed dividend, on loan interest and on other services.	5.7	2.6	**8.3**	8.3
Income Tax	2008-16	Deductibility of capital expenditures and expenses (2009, 2012, 2015 and 2016), additional income tax (2008, 2010, 2011 and 2012), tax on repatriated income (2012), deemed branch dividend (2015 and 2016), foreign exchange rate application (2013 and 2015) and underestimation of tax due (2014).	35.1	16.4	**51.5**	50.9
VAT	2008-16	Output VAT on imported services and SSI Operatorship services.	2.8	2.8	**5.6**	5.7
			44.5	22.2	**66.7**	66.4

Contingencies continued

Taxation continued

There were no new assessments issued during the quarter ended September 30, 2020 with regards to corporation tax, WHT, VAT, excise duty or payroll tax. Management, with 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 $61.4 million (December 31, 2019: $66.4 million).

During the quarter ended September 30, 2020, acting under instructions from the TRA, PAET's commercial bank transferred the full principal tax amount of $2.6 million and the interest of $2.7 million with regards to the 2008-10 output VAT. Subsequently, the Company filed an appeal for review with the Tanzanian Court of Appeal ("CAT"). These amounts have been recorded in trade and other receivables and fully provided for pending the resolution of the dispute.

During the quarter ended June 30, 2020, the Company filed an application for judicial review at the CAT with regards to the 2008-10 PAYE case ($0.3 million). During the quarter ended September 30, 2020, acting under instructions from the TRA, PAET's commercial bank transferred the full principal tax amount in dispute ($0.3 million) to the TRA. The Company has filed an appeal for review with the CAT.

The process of appealing against assessments issued by the TRA starts by initially filing an appeal with the TRA. If this is not successful, claims can be taken to higher authorities starting with the Tax Revenue Appeals Board ("TRAB") followed by an appeal to the Tax Revenue Appeals Tribunal ("TRAT") and finally to the CAT.

In 2016 the TRA introduced significant changes in relation to the income tax treatment of the extractive sector with separate new chapters in Part V of the Income Tax Act 2004 ("ITA, 2004") for mining and for petroleum to be effective commencing in 2018. Further changes were subsequently 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 has used what it believes are reasonable interpretations and assumptions in applying the WLMAA, 2017 for purposes of determining its tax liabilities and the 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 it is able to recover taxes payable from the TPDC Profit Gas entitlement under the terms of the PSA.

Accoun ing Policies and Changes

New Accoun ing Policies

Future Account ng Changes

The following pronouncements from the International Accounting Standards Board (the "IASB") will become effective or were amended for financial reporting periods beginning on or after January 1, 2020 and have not yet been adopted by the Company.

On October 22, 2018, the IASB issued "Definition of a Business (Amendments to IFRS 3)" aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020.

On October 31, 2018, the IASB issued "Definition of Material (Amendments to IAS 1 and IAS 8)" to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

The Company continues to review its position with respect to the IASB pronouncements but is not expecting any potential impact on its consolidated financial statements.

Disclosure Controls and Procedures

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") for the Company. DC&P, as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, are designed to provide reasonable assurance that information required to be disclosed in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities law and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The CEO and CFO of the Company evaluated the effectiveness of the design and operation of the Company's DC&P. Based on the evaluation, the officers concluded that the Company's DC&P were effective as at September 30, 2020.

MANAGEMENT'S DISCUSSION & ANALYSIS CONTINUED

Quarterly Results Summary

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

Figures in $'000 except where otherwise stated	2020			2019				2018
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	**20,859**	17,320	17,715	23,212	21,453	20,994	19,936	13,460
Net income attributable to shareholders	**1,487**	6,254	12,645	12,366	2,583	6,718	2,775	2,751
Earnings per share								
– basic and diluted ($)	**0.06**	0.24	0.39	0.36	0.07	0.19	0.08	0.09
Net cash flows from operating activities	**12,793**	13,515	827	5,054	7,603	8,978	13,241	4,085
Adjusted funds flow from operations[1]	**11,847**	7,379	7,569	13,482	10,180	10,490	9,064	6,398
Capital expenditures	**9,412**	1,005	489	2,679	652	1,413	1,092	2,628

[1] See non-GAAP measures.

The increase in revenue from Q4 2018 was primarily the result of gaining access to the NNGI in December 2018 and increased deliveries to TANESCO and TPDC as well as the corresponding continuous revenue growth throughout 2019. The decrease in revenue in Q1 and Q2 2020 was primarily a result of an increase in the use of hydro power due to an extended rainy season which resulted in a decrease in sales to the Power sector. The increase in Q3 2020 was primarily a result of increased deliveries to the Power sector as the availability of hydro power decreased during the quarter.

Net income attributable to shareholders was affected, in addition to factors affecting revenue, by the following:

- Increases in Q2 2019, Q4 2019, and Q1 2020 reflect the increase in finance income related to the collection of $3.5 million, $7.5 million, and $10.1 million of TANESCO long-term arrears, respectively. The decreases in Q1 2019 and Q3 2019, notwithstanding the increase in revenue, were a result of lower collections of TANESCO long-term arrears compared to other periods;
- Decrease in Q2 2020 was primarily a result of lower revenue which was not offset by collection of TANESCO arrears as compared to Q1 2020;
- Decrease in Q3 2020 was primarily a result of an increase in finance expense caused by the charge of $5.3 million with regards to the 2008-10 output VAT case with the TRA.

In addition to the factors impacting net income attributable to shareholders, net cash flows from operating activities were primarily affected by the timing and amount of payments received from TANESCO. This is the primary reason for the large cash flows in Q1 2019. The fluctuations throughout 2019 were primarily a result of the increase in revenue from quarter to quarter, payments to TPDC for profit share and changes in non-cash working capital. The decrease in Q1 2020 and the consequent increases in Q2 2020 is primarily a result of the annual payment of the current portion of the APT liability in Q1 2020. The decrease in Q3 2020 is mainly a result of decreased collections from TANESCO compared to prior periods.

Adjusted funds flow from operations from Q4 2018 to Q4 2019 showed consistent growth coinciding primarily with the increase in revenue. The increase in Q4 2019 was primarily related to the increased deliveries through the NNGI following the signing of the new LTGSA which resulted in TPDC taking gas deliveries as high as 40 MMcfd during the quarter. The decline from Q4 2019 to Q2 2020 is reflective of the decrease in revenue. The increase in Q3 2020 reflects the increase in revenue and operating netback.

Capital expenditures in 2018, 2019, and Q1 and Q2 2020 primarily relate to the refrigeration project and flowline decoupling and construction work. Capital expenditures in Q3 2020 mainly relate to the compression project.

Non-GAAP Measures

The Company evaluates its performance using a number of non-GAAP (generally accepted accounting principles) measures. These non-GAAP measures are not standardized and therefore may not be comparable to similar measurements of other entities.

- Adjusted funds flow from operations represents net cash flows from operating activities less interest expense and finance income related to the collection of TANESCO arrears and of previously disputed Songas operatorship receivables 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 September 30		Nine months ended September 30	
$'000	2020	2019	2020	2019
Net cash flows from operating activities	**12,793**	7,603	**27,136**	29,822
Interest expense	**(1,361)**	(2,279)	**(5,517)**	(6,658)
Finance income – collection of TANESCO arrears	**(1,567)**	–	**(16,427)**	(3,498)
Finance income – collection of disputed Songas receivables	**–**	–	**(1,046)**	–
Changes in non-cash working capital	**1,982**	4,856	**22,650**	10,068
Adjusted funds flow from operations	**11,847**	10,180	**26,796**	29,734

Non-GAAP Measures continued

- Operating netback represent the profit margin associated with the production and sale of Additional Gas and is calculated as revenues less processing and transportation tariffs, TPDC's Profit Gas revenue share, operating and distribution costs per one thousand standard cubic feet of Additional Gas. This is a key measure as it demonstrates the profit generated from each unit of production.
- 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, similar to the calculation of earnings per share.
- 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, similar to the calculation of earnings per share.

Use of Estimates and Judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The reader is referred to the Company's December 31, 2019 audited consolidated financial statements for a description of estimates and judgments.

Business Risks

The Company operates internationally in the oil and gas industry and is exposed to various market and operational risks. For a discussion of these risks, please see "Business Risks" in the MD&A for the year ended December 31, 2019 and the material change report filed on January 24, 2020 available on SEDAR at www.sedar.com or on the Company's website.

Country risk

The recent disputed actions taken by the TRA to seize funds from PAET's bank account using Agency Notices further highlight the country risks of operating in Tanzania. There is no assurance that such disputes will be resolved in favour of the Company and that further such actions may have a material adverse effect on our activities and ability to operate and monetize our interests in Tanzania.

COVID-19

The emergence of COVID-19 has resulted in travel bans, mandatory and self-imposed quarantines and isolations, social distancing and the closing of non-essential business which has had a negative impact on economies world-wide. The Company has taken appropriate action to protect employees such as social distancing, working from home where possible and ensuring staff who work on rotation at the Songas Infrastructure are placed into quarantine prior to assuming regular duties. The Company's business, operations and financial condition have not been significantly adversely affected by COVID-19 however there has been a small decline in revenue from gas deliveries as a result of temporary business slowdowns and closures. The full extent of the risks surrounding the severity of the COVID-19 pandemic is not fully known at this time. The further spread of COVID-19 could result in volatility and disruptions in regular business operations including disruption of supply chains that could impact operations and performance of counter-parties, volatility in foreign exchange rates, payment delays from customers, additional cyber-security and internal control risk as a result of more employees working remotely as well as declining trade and market sentiment. COVID-19 poses a risk on the financial capacity of the Company's contract counter-parties and potentially their ability to perform contractual obligations and the Company's ability to implement planned capital projects. Although the Company's production and reserves are entirely comprised of gas, a prolonged decline in world oil prices could impact the competitiveness and demand for gas in Tanzania and negatively impact Company revenues, collectability of receivables and cash flow.

Forward Looking Statements

This 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; the Company's expectations regarding timing for the completion of installation of compression on the Songas Infrastructure; anticipated production volumes and increased well deliverability as a result of the installation of compression on the Songas Infrastructure; current and potential impact of TPDC future back-in rights on the economic terms of the PSA; current and potential production capacity of the Songo Songo field; the anticipated increase in production following the implementation of the flowline decoupling project; expectations regarding timing for completion of the decoupling project; expected timing, cost and ability to remediate three onshore wells, SS-3, SS-4 and SS-10; the Company's expectation that all planned capital expenditures be funded out of existing working capital and cash flow generated by current operations; ability to meet all conditions under the IFC financing agreement; the Company's expectations in respect of its appeals on the decisions of the Tax Revenue Appeals Tribunal and other statements under "Contingencies – Taxation"; the Company's expectation that the Songas gas processing plant production volumes will not be restricted; the current and potential production capacity of the Songo Songo field; the Company's ability to produce additional volumes; the Company's ability to access additional processing and transportation capacity; 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; and the expectation that the IASB pronouncements will not have any impact on the Company's consolidated financial statements. 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.

MANAGEMENT'S DISCUSSION & ANALYSIS CONTINUED

Forward Looking Statements continued

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 the well workovers 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 Petroleum Act, 2015 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 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; the susceptibility of the areas in which the Company operates to outbreaks of disease; 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, oil and gas field services and skilled personnel; failure to obtain required equipment for field development; delays in development plans; failure to obtain expected results from the drilling or workover 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; risk that the Company will not be able to fulfil its contractual obligations; reduced global economic activity as a result of the COVID-19 pandemic, including lower demand for natural gas and a reduction in the price of natural gas; the potential impact of the COVID-19 pandemic on the health of the Company's employees, contractors, suppliers, customers and other partners and the risk that the Company and/or such persons are or may be restricted or prevented (as a result of quarantines, closures or otherwise) from conducting business activities for undetermined periods of time; and the impact of actions taken by governments to reduce the spread of COVID-19, including declaring states of emergency, imposing quarantines, border closures, temporary business closures for companies and industries deemed non-essential, significant travel restrictions and mandated social distancing, and the effect on the Company's operations, access to customers and suppliers, availability of employees and other resources. 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; the ability of the Company to complete additional developments and increase its production capacity; the actual costs to complete the Company's development program are in line with estimates; that there will continue to be no restrictions on the movement of cash from Mauritius or Tanzania; the impact of the COVID-19 pandemic on the demand for and price of natural gas, volatility in financial markets, disruptions to global supply chains and the Company's business, operations, access to customers and suppliers, availability of employees to carry out day-to-day operations, and other resources; 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, 2015 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.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com.

GLOSSARY

mcf	Thousand standard cubic feet
MMcf	Million standard cubic feet
Bcf	Billion standard cubic feet
Tcf	Trillion standard cubic feet
MMcfd	Million standard cubic feet per day
MMbtu	Million British thermal units
1P	Proved reserves
2P	Proved and probable reserves
kWh	Kilowatt hour
Km	Kilometers
$	United States dollars
CDN$	Canadian dollars

Q3 2020 INTERIM FINANCIAL STATEMENTS AND NOTES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

		Three months ended September 30		Nine months ended September 30	
$'000	Note	2020	2019	2020	2019
Revenue	6, 7	**20,859**	21,453	**55,894**	62,383
Production, distribution and transportation		**3,034**	2,894	**8,384**	8,385
Net production revenue		**17,825**	18,559	**47,510**	53,998
Operating expenses					
General and administrative		**3,778**	3,777	**10,465**	10,839
Stock based compensation (recovery) expense	14	**(82)**	814	**247**	1,741
Depletion	10	**3,931**	3,688	**10,752**	10,439
Finance income	8	**(1,752)**	(779)	**(18,498)**	(5,710)
Finance expense	8	**6,540**	2,697	**12,028**	7,933
Income before tax		**5,410**	8,362	**32,516**	28,756
Income tax expense – current		**1,589**	3,118	**6,568**	8,910
Income tax expense – deferred		**859**	178	**1,060**	1,103
Additional Profits Tax		**937**	2,116	**3,465**	5,283
Net income		**2,025**	2,950	**21,423**	13,460
Net income attributable to non-controlling interest		**538**	367	**1,037**	1,105
Net income attributable to shareholders		**1,487**	2,583	**20,386**	12,355
Foreign currency translation (gain) loss from foreign operations		**(11)**	25	**11**	30
Comprehensive income		**1,498**	2,558	**20,375**	12,325
Net income attributable to shareholders per share ($)					
Basic and diluted	15	**0.06**	0.07	**0.72**	0.35

See accompanying notes to the condensed consolidated interim financial statements.

NOTIFICATION OF CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the condensed unaudited consolidated interim financial statements for the three and nine month periods ended September 30, 2020.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

$'000	Note	As at September 30, 2020	As at December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		**98,534**	93,899
Investment in short-term bonds	8	**–**	44,756
Trade and other receivables	9	**21,751**	22,167
Prepayments		**4,728**	6,752
		125,013	167,574
Non-current assets			
Long-term receivables	12	**2,214**	2,250
Investments	20	**3,967**	3,967
Capital assets	10	**97,435**	97,981
		103,616	104,198
Total assets		**228,629**	271,772
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	11	**34,188**	48,161
Tax payable		**1,930**	501
Current portion of Additional Profits Tax		**9,659**	11,940
		45,777	60,602
Non-current liabilities			
Deferred income taxes		**16,214**	15,153
Lease liabilities	10	**614**	1,129
Long-term loan	13	**54,191**	54,057
Additional Profits Tax		**26,072**	32,264
		97,091	102,603
Total liabilities		**142,868**	163,205
SHAREHOLDERS' EQUITY			
Capital stock	14	**63,243**	84,099
Contributed surplus		**–**	4,181
Accumulated other comprehensive loss		**(221)**	(210)
Accumulated income		**21,539**	20,334
Non-controlling interest	20	**1,200**	163
		85,761	108,567
Total equity and liabilities		**228,629**	271,772

See accompanying notes to the condensed consolidated interim financial statements.

Nature of operations (Note 1); Contractual obligations and committed capital investments (Note 17); Contingencies (Note 18).

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

		Three months ended September 30		Nine months ended September 30	
$'000	Note	2020	2019	2020	2019
OPERATING ACTIVITIES					
Net income		**2,025**	2,950	**21,423**	13,460
Adjustment for:					
Depletion and depreciation	10	**4,068**	3,757	**11,159**	10,649
Loss on disposal of lease		**293**	–	**293**	–
Indirect tax	8	**201**	323	**1,670**	995
Stock based compensation (recovery) expense	14	**(82)**	814	**247**	1,741
Deferred income taxes		**859**	178	**1,060**	1,103
Additional Profits Tax		**937**	2,116	**3,465**	5,283
Finance expense	8	**5,337**	–	**5,337**	–
Unrealized (gain) loss on foreign exchange		**(224)**	42	**(385)**	1
Interest expense	8	**1,361**	2,279	**5,517**	6,658
Change in non-cash working capital	19	**(1,982)**	(4,856)	**(22,650)**	(10,068)
Net cash flows from operating activities		**12,793**	7,603	**27,136**	29,822
INVESTING ACTIVITIES					
Capital expenditures	10	**(9,412)**	(652)	**(10,906)**	(3,157)
Change in non-cash working capital	19	**(202)**	(328)	**(7)**	(71)
Net cash used in investing activities		**(9,614)**	(980)	**(10,913)**	(3,228)
FINANCING ACTIVITIES					
Lease payments		**(396)**	(35)	**(621)**	(105)
Substantial issuer bid	14	**–**	–	**(38,170)**	–
Normal course issuer bid	14	**(302)**	(4,413)	**(2,149)**	(4,413)
Investment in short-term bonds, net	8	**4,963**	20,116	**44,756**	(9,692)
Interest paid	8	**(3,738)**	(1,579)	**(6,632)**	(6,950)
Finance expense	8	**(5,337)**	–	**(5,337)**	–
Dividends paid to shareholders	14	**(1,158)**	(1,611)	**(3,869)**	(2,924)
Dividends paid to non-controlling interest		**–**	–	**–**	(952)
Net cash (used in) from financing activities		**(5,968)**	12,478	**(12,022)**	(25,036)
(Decrease) increase in cash and cash equivalents		**(2,789)**	19,101	**4,201**	1,558
Cash and cash equivalents at the beginning of the period		**101,113**	47,100	**93,899**	64,660
Effect of change in foreign exchange on cash for the period		**210**	(3)	**434**	(20)
Cash and cash equivalents at the end of the period		**98,534**	66,198	**98,534**	66,198

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

$'000	Capital stock	Contributed surplus	Accumulated other comprehensive loss	Accumulated income	Non-controlling interest	Total
Note	*14*			*14*	*20*	
Balance as at December 31, 2019	84,099	4,181	(210)	20,334	163	108,567
Share repurchase	(20,856)	(4,181)	–	(14,460)	–	(39,497)
Share repurchase costs	–	–	–	(822)	–	(822)
Dividends declared	–	–	–	(3,899)	–	(3,899)
Foreign currency translation adjustment on foreign operations	–	–	(11)	–	–	(11)
Net income	–	–	–	20,386	1,037	21,423
Balance as at September 30, 2020	**63,243**	**–**	**(221)**	**21,539**	**1,200**	**85,761**

$'000	Capital stock	Contributed surplus	Accumulated other comprehensive loss	Accumulated income	Non-controlling interest	Total
Note	*14*			*14*	*20*	
Balance as at December 31, 2018	86,508	6,319	(248)	652	471	93,702
Share repurchase	(2,314)	(2,099)	–	–	–	(4,413)
Dividends declared	–	–	–	(4,476)	–	(4,476)
Foreign currency translation adjustment on foreign operations	–	–	(30)	–	–	(30)
Net income	–	–	–	12,379	1,105	13,484
Non-controlling interest dividend declared and paid	–	–	–	–	(952)	(952)
Balance as at September 30, 2019	84,194	4,220	(278)	8,555	624	97,315

See accompanying notes to the condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

General Information

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

The condensed consolidated interim financial statements of the Company as at September 30, 2020 and for the three and nine months ended September 30, 2020 comprise the accounts of the Company and its subsidiaries (collectively, the "Company") and were authorized for issue in accordance with a resolution of the directors on November 18, 2020.

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 ("Songas Infrastructure"). The Company operates the gas processing plant and field on a 'no gain no loss' basis and receives no revenue for the Protected Gas delivered to Songas.

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

The Tanzania Electric Supply Company Limited ("TANESCO") is a parastatal organization which is wholly-owned by the GoT, with oversight by the Ministry of Energy ("MoE"). TANESCO is responsible for the majority of electricity generation, transmission and distribution 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 and Additional Gas to TPDC who in turn generate and sell power to TANESCO.

The Company delivers gas to TPDC through a long-term gas sales agreement ("LTGSA") signed in 2019 to the TPDC operated National Natural Gas Infrastructure ("NNGI") on Songo Songo Island where the natural gas is processed before being transported to Dar es Salaam for power and industrial use.

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

2. Basis of Preparation

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, 2019.

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 United States dollars ("$") unless otherwise stated.

COVID-19

In the nine-month period ended September 30, 2020 global oil prices declined significantly as a result of reduced demand driven by the recent coronavirus pandemic ("COVID-19") and concerns of excess supply resulting from failed negotiations between OPEC and other countries. As of now, there remains a considerable uncertainty regarding the duration and extent of oil demand destruction from the COVID-19 pandemic. Although the Company's production and reserves are entirely comprised of gas, the current challenging economic climate has the potential to have significant adverse impacts on the Company, including, but not limited to:

- potential material declines in revenue and cash flows due to reduced commodity prices,
- potential declines in future revenue, which could result in increased impairment charges on long-term assets,
- potential increased risk of non-performance by the Company's customers which could materially increase collection risk of accounts receivable and customer defaults on contracts, and
- potential prolonged demand reduction which could negatively impact the Company's ability to maintain liquidity.

There has been a small decrease in Industrial sales but no significant impact on Company operations to date due to COVID-19 however the current situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company are not known at this time. Estimates and judgments made by management in the preparation of these consolidated financial statements are subject to a higher degree of measurement uncertainty during this volatile period.

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, 2019. There have been no changes in accounting policies for the three and nine month periods ended September 30, 2020 and the policies have been applied consistently to all periods presented in the condensed consolidated interim financial statements except as described below.

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 "Business Combinations". The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; narrow the definitions of a business and of outputs; and introduce an optional fair value concentration test. The concentration test is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The amendments to IFRS 3 are effective for annual reporting periods beginning on or after January 1, 2020 and apply prospectively and have had no impact on the Company.

4. Use of Estimates and Judgments

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 judgments 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, 2019.

See Note 4 of the audited consolidated financial statements for the year ended December 31, 2019 for a full discussion.

5. Risk Management

The Company, by virtue of 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, Songas and TPDC. The carrying amount of accounts receivable and the long-term receivable represents the maximum credit exposure. As at September 30, 2020 and December 31, 2019, provisions exist against all of the long-term TANESCO receivable, gas plant operations and capital expenditure receivables from Songas and a receivable of $0.5 million from one industrial customer. No write-off of any customer receivables occurred in Q3 2020 (see Note 9).

The Company manages the credit exposure related to cash and cash equivalents by selecting counterparties based on credit ratings, monitoring all investments to ensure a stable return and by 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 September 30, 2020 the Company has working capital of $79.2 million which is net of $45.8 million of financial liabilities with regards to trade and other payables of which $20.8 million is due within one to three months, $ nil is due within three to six months, and $25.0 million is due within six to twelve months (see current liabilities on the Consolidated Interim Statements of Financial Position).

As at September 30, 2020 approximately 45% of the current liabilities relate to TPDC. The amounts due to TPDC represent its share of Profit Gas. In accordance with the terms of the PSA, TPDC is entitled to the payment of its share of Profit Gas on a quarterly basis proportional to the cash receipts during the quarter. A substantial proportion of the TPDC liability is associated with the long-term TANESCO arrears and payments to TPDC are made when cash is received for the arrears.

COVID 19 has reduced travel throughout the world in 2020. Tourism is a major source of revenue and foreign currency for Tanzania and the decrease in travel has resulted in a reduction of foreign currency flowing into the country. It has been more difficult for the Company in 2020 to convert Tanzanian shillings to United States dollars compared to prior years, however, as at the date of this report, this has not significantly impacted the PAET's ability to meet its United States dollar obligations. There is a risk that in the future the Company may not be able to convert Tanzanian shillings to United States dollars as and when required.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

6. Segment Information

The Company has one reportable industry segment which is international exploration, development and production of petroleum and natural gas. During 2020 and 2019 the Company's producing and exploration assets were entirely located in Tanzania. In 2019 the Company relinquished exploration and appraisal interests in Italy and the companies used for the Italian operations were wound up in Q2 2020.

7. Revenue

	Three months ended September 30		Nine months ended September 30	
$'000	2020	2019	2020	2019
Industrial sector	**9,145**	10,848	**25,896**	29,156
Power sector	**15,143**	15,490	**40,920**	44,084
Gross field revenue	**24,288**	26,338	**66,816**	73,240
TPDC share of revenue	**(4,559)**	(8,807)	**(16,863)**	(21,987)
Company operating revenue	**19,729**	17,531	**49,953**	51,253
Current income tax adjustment	**1,130**	3,922	**5,941**	11,130
	20,859	21,453	**55,894**	62,383

The Company recognized 100% of amounts invoiced for deliveries to TANESCO as revenue during the first nine months of 2019 and 2020. During Q3 2020 the Company invoiced TANESCO $5.9 million (Q3 2019: $12.9 million) for gas deliveries and received $7.5 million (Q3 2019: $13.7 million) in payments. Based on the consistent payments from TANESCO, the Company: (i) recognized all amounts invoiced for gas deliveries in Q3 2020 as revenue; and (ii) recognized $1.6 million during the quarter (Q3 2019: $ nil) as finance income relating to the amounts collected during the quarter that were applied towards the long-term TANESCO receivables previously provided for (see Note 8).

8. Finance Income and Expense

Finance Income

	Three months ended September 30		Nine months ended September 30	
$'000	2020	2019	2020	2019
Interest income	**185**	214	**720**	429
Investment income	**–**	565	**305**	1,783
Reversal of provision for doubtful accounts	**1,567**	–	**17,473**	3,498
	1,752	779	**18,498**	5,710

The reversal of the provision for doubtful accounts of $1.6 million (Q3 2019: $ nil) follows collection of TANESCO long-term arrears which had been previously provided for and represents the excess of receipts over invoices for gas delivered during Q3 2020 (see Notes 7 and 9).

At September 30, 2020 the Company did not have investments in short-term bonds (December 31, 2019: $44.8 million invested with maturity dates from February 2020 to July 2020 and a range of interest rates from 1.375% to 2.75%). The $0.3 million investment income for the nine months ended September 30, 2020 (nine months ended September 30, 2019: $1.8 million) includes interest earned of $0.3 million (nine months ended September 30, 2019: $1.1 million) and amortization of the discount on the acquisition of the bonds of $ nil (nine months ended September 30, 2019: $0.7 million).

Finance Expense

	Three months ended September 30		Nine months ended September 30	
$'000	2020	2019	2020	2019
Base interest expense	**1,469**	1,579	**4,363**	4,683
Participation interest (recovery) expense	**(132)**	692	**1,082**	1,951
Lease interest expense	**24**	8	**72**	24
Interest expense	**1,361**	2,279	**5,517**	6,658
Net foreign exchange (gain) loss	**(359)**	95	**(496)**	280
Indirect tax	**201**	323	**1,670**	995
Impairment of receivable	**5,337**	–	**5,337**	–
	6,540	2,697	**12,028**	7,933

8. Finance Income and Expense continued

Base interest expense and participation interest expense relate to the long-term loan (the "Loan") with the International Finance Corporation ("IFC"). Base interest on the Loan is payable quarterly in arrears 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 participation interest expense is paid annually in arrears and equates to 6.4% of PAET's net cash flows from operating activities net of net cash flows used in investing activities for the year. The participation interest will continue until October 15, 2026 regardless of whether the Loan is repaid prior to its contractual maturity date.

The indirect tax is for VAT associated with invoices to TANESCO under the take or pay provisions within the PGSA and for interest on late payments.

Impairment of receivable is for a receivable from the Tanzanian Revenue Authority ("TRA") who issued an Agency Notice for $5.3 million obligating the Company's bank to release funds in favour of the TRA (see Note 9). The tax dispute related to the Agency Notice is ongoing and based on the opinion of the Company's legal advisors there is better than a 50% chance of the dispute being resolved in favour of the Company (see Note 18). The Company recorded the $5.3 million as other receivables and fully provided for the amount in dispute as the timing and likelihood for collection is uncertain.

9. Current Trade and Other Receivables

	As at	
$'000	September 30, 2020	December 31, 2019
Trade receivables		
Songas	**2,562**	2,332
TPDC	**4,887**	7,284
Industrial customers	**10,425**	9,121
Provision for doubtful accounts	**(452)**	(452)
	17,422	18,285
Other receivables		
Songas gas plant operations	**5,350**	6,431
Other	**6,985**	1,166
Impairment of receivables	**(8,006)**	(3,715)
	4,329	3,882
	21,751	22,167

Songas

As at September 30, 2020 Songas owed the Company $7.9 million (December 31, 2019: $8.8 million), while the Company owed Songas $1.9 million (December 31, 2019: $2.4 million). The amounts due to the Company are for sales of gas of $2.6 million (December 31, 2019: $2.4 million) and for the operation of the gas plant of $5.3 million (December 31, 2019: $6.4 million) against which the Company has made a provision for doubtful accounts of $2.7 million (December 31, 2019: $3.7 million). The Company is pursuing the collection of the arrears and as part of the contractual process, the Company has entered into arbitration to resolve the dispute for the amounts previously provided for. The results of the arbitration are uncertain at this time. The amounts due to Songas primarily relate to pipeline tariff charges of $1.5 million (December 31, 2019: $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.

TPDC

The current receivable from TPDC is for gas deliveries through the NNGI pursuant to the signing of the LTGSA. In accordance with the LTGSA, any unpaid, overdue amounts are offset against TPDC profit share.

Other

The increase in other receivables and the impairment of receivables relate to the TRA (see Note 8).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

10. Capital Assets

$'000	Natural gas interests	Office and other	Right-of-use	Total
Costs				
As at December 31, 2019	214,163	2,870	1,665	218,698
Additions	10,807	19	80	10,906
Disposals	–	–	(536)	(536)
As at September 30, 2020	**224,970**	**2,889**	**1,209**	**229,068**
Accumulated depletion and depreciation				
As at December 31, 2019	117,758	2,770	189	120,717
Additions	10,752	83	324	11,159
Disposals	–	–	(243)	(243)
As at September 30, 2020	**128,510**	**2,853**	**270**	**131,633**
Net book values				
As at September 30, 2020	**96,460**	**36**	**939**	**97,435**

In determining the depletion charge, it is estimated that as at September 30, 2020 the future development costs of $57.1 million (December 31, 2019: $67.9 million) will be required to bring the total proved reserves to production. The future development cost is an estimate of the capital expenditure required to ensure the Company can produce the required gas volumes to meet its contractual obligations for the remaining life of the licence. During the nine months ended September 30, 2020 the Company recorded depreciation of $0.1 million (nine months ended September 30, 2019: $0.1 million) in general and administrative expenses.

Right-of-use assets

$'000	
As at December 31, 2019	1,476
Additions	80
Disposals	(293)
Depreciation	(324)
As at September 30, 2020	**939**

Lease liabilities

$'000	
As at December 31, 2019	1,411
Additions	80
Lease interest expense	72
Lease foreign currency translation difference	2
Lease payments	(621)
As at September 30, 2020	**944**

Right-of-use assets is presented as part of capital assets on the Company's balance sheet. Of the total lease liability of $0.9 million, $0.3 million is current and is presented in trade and other payables.

Disposals relate to the surrender of the Winchester office lease. Lease payments includes the final lease payment including costs for returning the Winchester office premises to their original condition along with regular lease payments on two lease agreements in Tanzania.

11. Trade and Other Payables

$'000	As at September 30, 2020	As at December 31, 2019
Songas	**1,875**	2,354
Other trade payables	**4,194**	1,310
Trade payables	**6,069**	3,664
TPDC Profit Gas entitlement, net	**20,787**	33,134
Accrued liabilities	**7,332**	11,363
	34,188	48,161

TPDC share of Profit Gas

$'000	As at September 30, 2020	As at December 31, 2019
TPDC share of Profit Gas	**26,534**	38,077
Less "Adjustment Factor"	**(5,747)**	(4,943)
	20,787	33,134

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. A significant percentage of the settlement of the $20.8 million liability to TPDC is dependent on receipt of payment from TANESCO for long-term arrears that have been fully provided for.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

12. Long-term Receivables

	As at	
$'000	September 30, 2020	December 31, 2019
Amounts invoiced to TANESCO	**113,382**	118,861
Unrecognized amounts not meeting revenue recognition criteria[1]	**(82,355)**	(71,407)
Provision for doubtful accounts	**(31,027)**	(47,454)
Net TANESCO receivable	**–**	–
VAT Songas workovers	**2,205**	2,205
Lease deposit	**9**	45
	2,214	2,250

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

During the quarter the amounts received from TANESCO were in excess of the revenue recognized for gas sales to TANESCO and $1.6 million (Q3 2019: $ nil) of cumulative excess cash receipts over sales invoiced in Q3 2020 were recorded to reduce the long-term arrears along with the associated reversal of the provision for doubtful accounts. In Q2 2020 the Company invoiced TANESCO $6.5 million (Q2 2019: $ nil) under the take or pay provision within the PGSA; this invoice has not been recognized as it does not meet revenue recognition criteria with respect to assurance of collectability.

In 2017, based on agreement with TPDC, the Songas share of workover costs of $14.5 million was transferred to the cost pool to recover the costs via the PSA cost recovery mechanism. This resulted in $2.2 million relating to VAT on the workovers that had already been paid being reclassified as a long-term receivable. The Company continues to consider options to collect the workover costs through the mechanisms provided in the agreements with Songas.

13. Long-term Loan

In 2015 PAET took out the Loan with the IFC, a member of the World Bank Group, for $60 million. The Loan was fully drawn down in 2016.

The Loan is to be repaid through six semi-annual payments of $5 million starting April 15, 2022 and one final payment of $25.2 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. The Loan is an unsecured subordinated obligation of PAET and is guaranteed by the Company to a maximum of $30 million. The guarantee may only be called upon by IFC at maturity in 2025 and, subject to IFC approval and receipt of all required regulatory approvals, the Company, 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 PAE PanAfrican Energy Corporation ("PAEM"), the parent company of PAET, the Company agreed with the IFC to reduce the outstanding amount of the Loan by the percentage interest sold of 7.9% ($4.8 million) before the fourth anniversary of the first drawdown. PAET made this payment on October 16, 2019.

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

	As at	
$'000	September 30, 2020	December 31, 2019
Loan principal	**55,240**	55,240
Financing costs	**(1,049)**	(1,183)
	54,191	54,057

14. Capital Stock

Authorised

50,000,000	Class A common shares ("Class A Shares")	No par value
100,000,000	Class B subordinate voting shares ("Class B 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 (1) 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

	As at					
	September 30, 2020			December 31, 2019		
Number of shares	Authorised (000)	Issued (000)	Amount ($'000)	Authorised (000)	Issued (000)	Amount ($'000)
Class A Shares	**50,000**	**1,750**	**983**	50,000	1,750	983
Class B Shares	**100,000**	**24,388**	**62,260**	100,000	32,557	83,116
First preference shares	**100,000**	**–**	**–**	100,000	–	–
	250,000	**26,138**	**63,243**	250,000	34,307	84,099

During Q3 2020 there were no changes in capital stock.

During Q2 2020 the Company repurchased and cancelled 477,500 Class B Shares at a weighted average price of CDN$5.32 per Class B Share under the normal course issuer bid ("NCIB"). This resulted in an aggregate purchase of CDN$2.5 million of Class B Shares. Total cash payments of $2.1 million were applied to the capital stock, contributed surplus and accumulated income accounts.

During Q1 2020 the Company repurchased and cancelled 7,692,297 Class B Shares at a weighted average price of CDN$6.50 per Class B Share under a substantial issuer bid. This resulted in an aggregate purchase of CDN$50.0 million of Class B Shares representing 23.6% of the Company's issued and outstanding Class B Shares and 22.4% of the total number of the Company's issued and outstanding shares. Total cash payments of $38.2 million were applied to the capital stock, contributed surplus and accumulated income accounts.

All issued capital stock is fully paid.

Changes in Stock Appreciation Rights ("SARs")

$'000	SARs (000)	Exercise price (CDN$)
Outstanding as at December 31, 2019	2,322	2.30 to 6.65
Issued	160	5.02
Exercised	(495)	5.00
Exercised	(60)	3.02
Exercised	(30)	3.87
Forfeited	(317)	5.00
Forfeited	(118)	5.02
Forfeited	(72)	6.65
Outstanding as at September 30, 2020	**1,390**	**2.30 to 6.65**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

14. Capital Stock continued

The number outstanding, the weighted average remaining life, the number exercisable and the weighted average exercise prices of SARs at September 30, 2020 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	30	–	30	2.30
3.02	60	0.25	–	3.02
3.87	60	2.50	–	3.87
5.00 to 6.65	1,240	2.29	227	5.15
2.30 to 6.65	**1,390**	**2.15**	**257**	**4.94**

Changes in Restrictive Stock Units ("RSUs")

$'000	RSUs (000)	Exercise price (CDN$)
Outstanding as at December 31, 2019	235	0.01
Issued	21	0.01
Exercised	(49)	0.01
Forfeited	(44)	0.01
Outstanding as at September 30, 2020	**163**	**0.01**

The number outstanding, the number exercisable and the weighted average remaining life of RSUs at September 30, 2020 were as follows:

Exercise price (CDN$)	Number outstanding (000)	Number exercisable (000)	Weighted average remaining contractual life (years)
0.01	**163**	**49**	**2.02**

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 as at September 30, 2020, the following assumptions have been made: a risk free rate of interest of 1.0%, stock volatility of 34.08% to 42.86%, 0% dividend yield, 5% forfeiture and a closing stock price of CDN$5.80 per share.

14. Capital Stock continued

$'000	As at September 30, 2020	As at December 31, 2019
SARs	**1,427**	1,996
RSUs	**523**	536
	1,950	2,532

Dividend Summary

Declaration date	Record date	Payment date	Amount per share (CDN$)
September 17, 2020	September 30, 2020	October 15, 2020	0.08
June 22, 2020	June 30, 2020	July 15, 2020	0.06
February 25, 2020	March 31, 2020	April 30, 2020	0.06
November 28, 2019	December 31, 2019	January 31, 2020	0.06
September 17, 2019	September 30, 2019	October 31, 2019	0.06
May 29, 2019	June 30, 2019	July 31, 2019	0.06
January 22, 2019	March 31, 2019	April 30, 2019	0.05

15. Earnings Per Share

(000)	Three months ended September 30 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Outstanding shares				
Weighted average number of Class A and Class B Shares, basic	**26,138**	34,914	**28,381**	35,141
Weighted average number of Class A and Class B Shares, diluted	**26,138**	34,914	**28,381**	35,141

The calculation of earnings per share is based on a net income attributable to shareholders for the quarter of $1.5 million (Q3 2019: $2.6 million) and a weighted average number of Class A and Class B Shares outstanding during the quarter ended September 30, 2020 of 26,137,955 (Q3 2019: 34,914,403). The calculation of earnings per share for the nine months ended September 30, 2020 is based on a net income of $20.4 million (nine months ended September 30, 2019: $12.4 million) and a weighted average number of Class A and Class B shares outstanding for the nine months ended September 30, 2020 of 28,381,477 (nine months ended September 30, 2019: 35,140,832).

16. Related Party Transactions

The Chairman of the Company's Board of Directors is counsel to a law firm that provides legal advice to the Company and its subsidiaries. Fees for services provided by this firm totalled $0.1 million during the quarter ended September 30, 2020 (Q3 2019: $0.1 million) and $0.8 million for the nine months ended September 30, 2020 (nine months ended September 30, 2019: $0.2 million).

As at September 30, 2020 the Company had a total of $0.1 million (December 31, 2019: $0.2 million) recorded in trade and other payables in relation to related parties.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

17. Contractual Obligations and 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 which was 229 Bcf as at September 30, 2020 (December 31, 2019: 214 Bcf). 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 the end of July 2024.

Terms of the Gas Agreement were modified by the Amended and Restated Gas Agreement ("ARGA") which was initialled 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.

Capital Commitments

The Company is adapting to the recent outbreak of COVID-19 and the related economic and social disruption, volatility in financial markets, potential disruption to global supply chains, and the ability to directly and indirectly staff the Company's day to day operations. The current challenging economic climate may lead to further adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and ability to generate income and cash flows in the future. The current volatility in commodity prices and uncertainty regarding the timing for recovery creates inherent challenges with the preparation of financial forecasts.

Tanzania

At the date of this report, the Company's only significant outstanding contractual commitment is in relation to the $38 million fixed price turnkey compression contract; $13.3 million has been paid to date. The remaining forecasted capital expenditures under this contract are $11.4 million in Q4 2020, $9.5 million in 2021 and $3.8 million in 2022.

Italy

The Company relinquished its rights to farm-in on the Central Adriatic permit in 2019 and has no further capital obligations relating to Italian operations. The subsidiary companies previously used for the Company's Italian operations were wound up in Q2 2020.

18. 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 historical costs (the "Cost Pool") and in 2011 disputed approximately $34.0 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, parties are to agree the appointment of 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. From 2010 to 2015 TPDC rejected a further $18.0 million of costs. In 2016 the Tanzanian Petroleum Upstream Regulatory Authority ("PURA") assumed the role of auditing the PSA cost pool from TPDC and for 2016 and 2017 have rejected all costs pertaining to downstream development amounting to $5.9 million and a further $0.8 million of other costs. To date there remains a total of $45.1 million of costs that have been queried or rejected by TPDC or PURA through the cost pool audit process.

During 2019 discussions on the disputed amounts briefly resumed with TPDC. At the time of writing this report no independent specialist has been appointed and neither TPDC nor PURA have issued a formal dispute regarding cost recovery. 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 pursuant to the terms of the PSA. The Company's view is that all costs have been correctly included in the Cost Pool however should any of the costs be rejected as not being cost recoverable, the Company would be required to retroactively adjust its share of revenue for the period under dispute.

18. Contingencies continued

Tax

Amounts in $' millions					As at September 30, 2020	As at December 31, 2019
Area	Period	Reason for dispute	Principal	Interest	Total	Total
Pay-As-You-Earn ("PAYE") tax	2008-16	PAYE tax on grossed-up amounts in staff salaries which are contractually stated as net.	0.9	0.4	**1.3**	1.5
Withholding tax ("WHT")	2005-16	WHT on services performed outside of Tanzania by non-resident persons, on deemed dividend, on loan interest and on other services.	5.7	2.6	**8.3**	8.3
Income Tax	2008-16	Deductibility of capital expenditures and expenses (2009, 2012 and 2016), 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).	35.1	16.4	**51.5**	50.9
VAT	2008-16	Output VAT on imported services and SSI Operatorship services.	2.8	2.8	**5.6**	5.7
			44.5	22.2	**66.7**	66.4

There were no new assessments issued during the quarter ended September 30, 2020 with regards to corporation tax, WHT, VAT, excise duty or payroll tax. Management, with 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 $61.4 million (December 31, 2019: $66.4 million). See Note 21 of the audited consolidated financial statements for the year ended December 31, 2019 for a full discussion of contingent tax issues.

During the quarter ended September 30, 2020, acting under instructions from the TRA, PAET's commercial bank transferred to the TRA the full principal tax amount of $2.6 million and the interest of $2.7 million with regards to the 2008-10 output VAT which is currently under dispute. Subsequently, the Company filed an appeal for review with the Tanzanian Court of Appeal (the "CAT"). The amounts have been recorded in trade and other receivables and fully provided for pending the resolution of the dispute.

During the quarter ended June 30, 2020, the Company filed an application for judicial review at the CAT with regards to the 2008-10 PAYE case ($0.3 million). During the quarter ended September 30, 2020, acting under instructions from the TRA, PAET's commercial bank transferred the full principal tax amount in dispute ($0.3 million) to the TRA. The Company has filed an appeal for review with the CAT.

The process of appealing assessments issued by the TRA starts by initially filing an appeal with the TRA. If this is not successful, claims can be taken to higher authorities starting with the Tax Revenue Appeals Board, followed by an appeal to the Tax Revenue Appeals Tribunal and finally to the CAT.

In 2016 theTRA introduced significant changes in relation to the income tax treatment of the extractive sector with separate new chapters in Part V of the Income Tax Act 2004 ("ITA, 2004") for mining and for petroleum to be effective commencing in 2018. Further changes were subsequently 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 has used what it believes are reasonable interpretations and assumptions in applying the WLMAA, 2017 for purposes of determining its tax liabilities and the 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 it is able to recover taxes payable from the TPDC Profit Gas entitlement under the terms of the PSA.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

19. Change in Non-Cash Operating Working Capital

	Three months ended September 30		Nine months ended September 30	
$'000	2020	2019	2020	2019
Decrease (increase) in trade and other receivables	**1,214**	(1,684)	**(1,326)**	(3,571)
Decrease in prepayments	**2,751**	309	**2,024**	744
Decrease in trade and other payables	**(6,277)**	(3,921)	**(12,881)**	(10,035)
Decrease in APT	**–**	–	**(11,938)**	–
Increase in tax payable	**90**	110	**1,428**	2,754
Decrease (increase) in long-term receivable	**38**	2	**36**	(31)
	(2,184)	(5,184)	**(22,657)**	(10,139)
Changes in non-cash operating working capital	**(1,982)**	(4,856)	**(22,650)**	(10,068)
Changes in non-cash investing working capital	**(202)**	(328)	**(7)**	(71)
	(2,184)	(5,184)	**(22,657)**	(10,139)

20. Non-Controlling Interest

The Company sold 7.9% (7,933 Class A common shares) of PAEM to a wholly owned subsidiary of Swala Oil & Gas (Tanzania) plc. ("Swala") in 2018 for $15.4 million cash and $4.0 million of Swala convertible preference shares ("Preference Shares") pursuant to a share purchase agreement. The Preference Shares entitle the Company to a 10% per annum distribution payable 15 days after each quarter end commencing from the closing date, January 16, 2018. Payment of the quarterly distributions is at the discretion of Swala based on funds available, however, the liability accrues if any amount is unpaid when due. If any distributable amount remains unpaid at December 31, 2021, the Company may demand settlement and Swala is obligated to comply by transferring and returning the Class A common shares of PAEM sold to Swala. The aggregate value of these shares will equal the amount of the outstanding distributions. As at September 30, 2020 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 from December 31, 2021 until all shares are redeemed. If at any time Swala does not redeem in cash the required number of Preference Shares, Swala is obligated to redeem the Preference Shares by transferring and returning the Class A common shares of PAEM sold to Swala. The aggregate value of these Class A common shares will equal the amount of any outstanding redemption.

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

	As at	
$'000	September 30, 2020	December 31, 2019
Balance, beginning of period	**163**	(513)
Share of income	**1,037**	1,628
Dividends paid	**–**	(952)
Balance, end of period	**1,200**	163

CORPORATE INFORMATION

Board of Directors

Jay Lyons
Executive Director and
Interim Chief Executive Officer
Vancouver, Canada

David W. Ross
Chairman and Non-Executive Director
Calgary, Canada

Dr Frannie Léautier
Non-Executive Director
Washington DC, United States

Linda Beal
Non-Executive Director
London, United Kingdom

Officers

Jay Lyons
Interim Chief Executive Officer
Vancouver, Canada

Blaine Karst
Chief Financial Officer
Calgary, Canada

Andrew Hanna
Managing Director, PAET
Surrey, United Kingdom

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Blaine Karst
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Calgary, Canada

Transfer Agent

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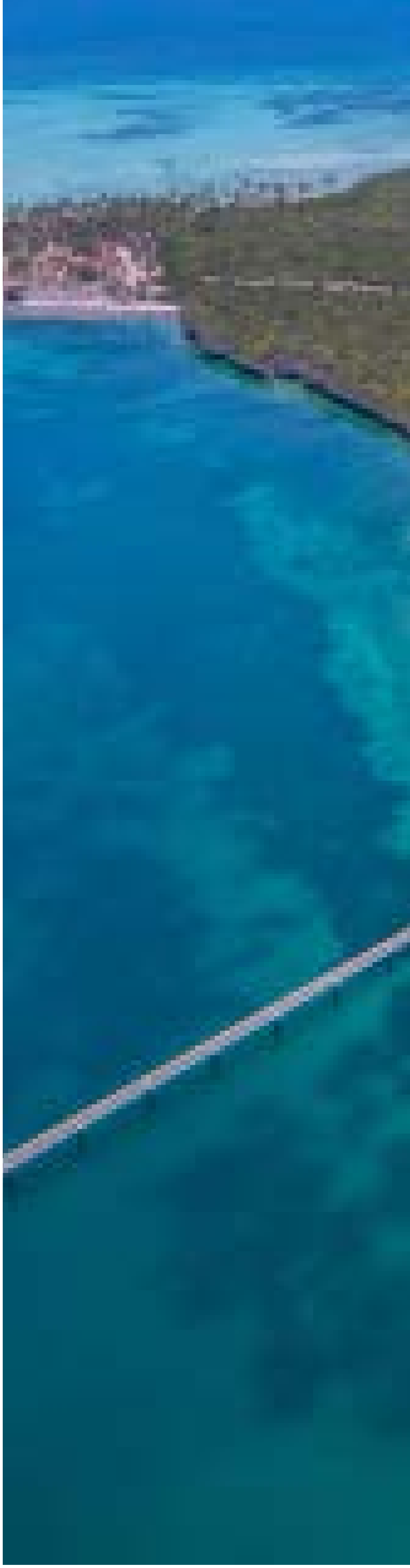

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