

ORCA EXPLORATION GROUP INC.

Q2 2019  
FINANCIAL  
STATEMENTS  
& NOTES

**NOTIFICATION OF CONDENSED UNAUDITED  
CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the condensed unaudited consolidated interim financial statements for the three and six-month periods ended June 30, 2019.

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

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

See accompanying notes to the condensed consolidated interim financial statements.

# Condensed Consolidated Interim Statements of Financial Position (unaudited)

ORCA EXPLORATION GROUP INC.

AS AT

\$'000

Note

JUNE 30, 2019

DECEMBER 31, 2018

**Assets****Current assets**

Cash and cash equivalents		<b>47,100</b>	64,660
Investment in short-term bonds	8	<b>96,645</b>	66,837
Trade and other receivables	9	<b>17,127</b>	15,862
Prepayments		<b>782</b>	1,217
		<b>161,654</b>	148,576

**Non-current assets**

Long-term receivables	9	<b>2,457</b>	2,424
Investments	19	<b>3,967</b>	3,967
Property, plant and equipment	10	<b>103,157</b>	107,474
		<b>109,581</b>	113,865

**Total assets****271,235** 262,441**Equity and liabilities****Current liabilities**

Trade and other payables	11	<b>55,037</b>	59,634
Tax payable		<b>2,644</b>	–
Current portion of long-term loan	12	<b>4,760</b>	4,760
		<b>62,441</b>	64,394

**Non-current liabilities**

Deferred income taxes		<b>13,753</b>	12,828
Long-term loan	12	<b>53,988</b>	53,900
Additional Profits Tax		<b>40,784</b>	37,617
		<b>108,525</b>	104,345

**Total liabilities****170,966** 168,739**Equity**

Capital stock	13	<b>86,466</b>	86,508
Contributed surplus		<b>6,282</b>	6,319
Accumulated other comprehensive loss		<b>(253)</b>	(248)
Accumulated income		<b>7,239</b>	652
Non-controlling interest	19	<b>535</b>	471
		<b>100,269</b>	93,702

**Total equity and liabilities****271,235** 262,441

See accompanying notes to the condensed consolidated interim financial statements.

Nature of operations (Note 1); Contractual obligations and committed capital investments (Note 16); Contingencies (Note 17).

## Condensed Consolidated Interim Statements of Cash Flows (unaudited)

ORCA EXPLORATION GROUP INC.		THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
\$'000	Note	2019	2018	2019	2018
<b>Operating activities</b>					
<b>Net Income</b>		<b>7,442</b>	12,487	<b>10,526</b>	7,849
Adjustment for:					
Depletion and depreciation	10	<b>3,291</b>	1,856	<b>6,822</b>	3,926
Indirect tax	8	<b>334</b>	2,799	<b>672</b>	3,063
Stock based compensation expense	13	<b>884</b>	423	<b>927</b>	5,052
Deferred income taxes expense		<b>546</b>	449	<b>925</b>	99
Additional Profits Tax		<b>1,475</b>	383	<b>3,167</b>	1,157
Unrealized (gain) loss on foreign exchange		<b>(11)</b>	(206)	<b>(41)</b>	20
Interest expense	8	<b>1,966</b>	2,124	<b>4,363</b>	6,800
Change in non-cash working capital	18	<b>(6,984)</b>	(7,658)	<b>(5,212)</b>	(13,782)
<b>Net cash flows from operating activities</b>		<b>8,943</b>	12,657	<b>22,149</b>	14,184
<b>Investing activities</b>					
Property, plant and equipment expenditures	10	<b>(1,413)</b>	(1,042)	<b>(2,505)</b>	(1,861)
Change in non-cash working capital		<b>654</b>	152	<b>257</b>	160
<b>Net cash used in investing activities</b>		<b>(759)</b>	(890)	<b>(2,248)</b>	(1,701)
<b>Financing activities</b>					
Investment in bonds, net	8	<b>4,474</b>	(70,053)	<b>(29,808)</b>	(70,053)
Interest paid, net	8	<b>(1,561)</b>	(5,081)	<b>(3,104)</b>	(9,197)
Participatory interest paid	8	<b>(2,267)</b>	–	<b>(2,267)</b>	–
Proceeds on sale of interest in a subsidiary	19	–	(317)	–	15,374
Dividends paid to shareholders	13	<b>(1,313)</b>	–	<b>(1,313)</b>	(16,866)
Dividends paid to non-controlling interest		<b>(793)</b>	–	<b>(952)</b>	–
<b>Net cash used in financing activities</b>		<b>(1,460)</b>	(75,451)	<b>(37,444)</b>	(80,742)
<b>Increase (decrease) in cash</b>		<b>6,724</b>	(63,684)	<b>(17,543)</b>	(68,259)
Cash and cash equivalents at the beginning of the period		<b>40,372</b>	117,813	<b>64,660</b>	122,322
Effect of change in foreign exchange on cash for the period		<b>4</b>	53	<b>(17)</b>	119
<b>Cash and cash equivalents at the end of the period</b>		<b>47,100</b>	54,182	<b>47,100</b>	54,182

See accompanying notes to the condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

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

  

\$'000	Capital stock	Contributed surplus	Cumulative translation adjustment	Accumulated loss	Non-controlling interest	Total
Note	13			13, 19	19	
Balance as at December 31, 2017	86,508	6,319	(165)	(13,931)	–	78,731
Dividend declared	–	–	–	(16,866)	–	(16,866)
Foreign currency translation adjustment on foreign operations	–	–	(37)	–	–	(37)
Net income (loss)	–	–	–	7,882	(33)	7,849
Gain on sale of interest in a subsidiary	–	–	–	19,163	–	19,163
Non-controlling interest recorded at date of acquisition	–	–	–	–	178	178
Balance as at June 30, 2018	86,508	6,319	(202)	(3,752)	145	89,018

See accompanying notes to the condensed consolidated interim financial statements.

# Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

## General Information

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

The condensed consolidated interim financial statements of the Company as at June 30, 2019 and for the three and six months ended June 30, 2019 comprise accounts of the Company and all its wholly and majority owned subsidiaries (collectively, the "Company" or "Orca Exploration") and were authorized for issue in accordance with a resolution of the directors on August 14, 2019.

## 1

### NATURE OF OPERATIONS

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

The PSA defines gas in the Songo Songo field as "Protected Gas" and "Additional Gas". The "Protected Gas" is owned by TPDC and is sold under a 20-year gas agreement until July 2024 ("Gas Agreement") to Songas Limited ("Songas"). Songas is the owner of the infrastructure that enables the gas to be delivered to Dar es Salaam, which includes a gas processing plant on Songo Songo Island. The Company operates the gas processing plant and field on a 'no gain no loss' basis and receives no revenue for the Protected Gas delivered to Songas.

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

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

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

## 2

### BASIS OF PREPARATION

#### Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis and have been prepared using the accrual basis of accounting. The consolidated financial statements are presented in US dollars (“\$”) unless otherwise stated.

#### Statement of Compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting”, and do not include all information required for full annual financials and should be read in conjunction with the audited financial statements for the year ended December 31, 2018.

## 3

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company’s accounting policies are set forth in Note 3 to the audited consolidated financial statements for the year ended December 31, 2018. There have been no changes in accounting policies for the six-month period ended June 30, 2019 and the policies have been applied consistently to all periods presented in the condensed consolidated interim financial statements, except as noted below:

#### IFRS 16 – Leases

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

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

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

- i. incremental borrowing rate: The incremental borrowing rates are based on judgements including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest and depletion and depreciation expense, may differ due to changes in the market conditions and lease term.
- ii. lease term: Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

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

- i. the contract involves the use of an identified asset; this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- ii. the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

- iii. the Company has the right to direct the use of the asset. The Company has this right when it has the decision making rights that are most relevant to changing how and for what purpose the assets is used. In rare cases where the decision is predetermined, the Company has the right to direct the use of the asset if either:
  - a. the Company has the right to operate the asset; or
  - b. the Company designed the asset in a way that predetermines how and for what purpose it will be used.

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

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

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

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

- i. fixed payments, including in-substance fixed payments;
- ii. variable lease payments that depend on an index or rate, initially measured at the index or rate as at the commencement date;
- iii. amounts expected to be payable under a residual value guarantee; and
- iv. the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an option renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is certain not to terminate early.

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

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

### **Short-term leases and leases of low value assets**

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

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**USE OF ESTIMATES AND JUDGEMENTS**

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ materially from these estimates. In preparing these interim consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2018.

See Note 4 of the audited consolidated financial statements for the year ended December 31, 2018 for a full discussion.

## 5

## RISK MANAGEMENT

The Company, by its activities in oil and gas exploration, development and production, is exposed to the risk associated with the unpredictable nature of the financial markets as well as political risk associated with conducting operations in an emerging market. The Company seeks to manage its exposure to these risks wherever possible.

### A. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from TANESCO and Songas. The carrying amount of accounts receivable and the long-term receivable represents the maximum credit exposure. As at June 30, 2019 and December 31, 2018 provisions exist against the long-term TANESCO receivable, the provision for gas plant operations charges and capital expenditure receivables from Songas and the provision of \$0.5 million for one industrial customer. No write-off of any receivables occurred during the quarter (see Note 9).

All the Company's production is currently derived in Tanzania. The sales are made to the Power sector and the Industrial sector. In relation to sales to the Power sector, the Company has a contract with Songas for the supply of gas to the Ubungo power plant and a contract with TANESCO to supply gas to some of the TANESCO power plants. The contracts with Songas and TANESCO accounted for 61% of the Company's gross field revenue operating revenue for the six months ending June 30, 2019 and \$2.1 million of the short and long-term receivables at June 30, 2019.

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

### B. Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its liabilities. Cash forecasts identifying liquidity requirements of the Company are produced on a regular basis. These are reviewed to ensure sufficient funds exist to finance the Company's current operational and investment cash flow requirements. At June 30, 2019 the Company has working capital of \$99.2 million which is net of \$62.4 million of financial liabilities. With regards to current liabilities, \$38.1 million is due within one to three months, nil is due within three to six months, and \$24.3 million is due within six to twelve months (see Note 11).

At the end of the quarter approximately 59% of the current liabilities relate to TPDC (see Note 11). The amounts due to TPDC represent its share of Profit Gas; in accordance with the terms of the PSA, TPDC is entitled to the payment of its share of Profit Gas on a quarterly basis proportional to the cash receipts during the quarter. A large proportion of the TPDC liability is associated with the long-term TANESCO arrears and payments to TPDC are made on a quarterly basis when cash is received for the arrears.

## 6

## SEGMENT INFORMATION

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

\$'000	2019			THREE MONTHS ENDED JUNE 30		
	Italy	Tanzania	Total	Italy	Tanzania	Total
External revenue	–	20,994	20,994	–	14,959	14,959
Segment net income (loss) <sup>(1)</sup>	4	7,438	7,442	(69)	12,556	12,487
Finance income <sup>(2)</sup>	–	4,260	4,260	–	13,903	13,903
Indirect tax <sup>(2)</sup>	–	334	334	–	2,799	2,799
Interest expense <sup>(2)</sup>	–	1,966	1,966	–	2,124	2,124
Capital additions	–	1,413	1,413	–	1,042	1,042
Depletion & depreciation	–	3,291	3,291	–	1,856	1,856

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

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

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

<sup>(2)</sup> See Note 8.

## 7

## REVENUE

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

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

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

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

## 8

## FINANCE INCOME AND EXPENSE

## Finance income

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

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

At June 30, 2019 the Company had \$96.6 million invested in US dollar short-term bonds with maturity dates from July 2019 to May 2020 and a range of interest rates from 0.875% to 2.38% (December 31, 2018: \$66.8 million with maturity dates from March 2019 to December 2019 and a range of interest rates from 0.875% to 2.125%). The \$0.6 million investment income for the quarter ended June 30, 2019 (Q2 2018: \$0.3 million) includes accrued interest of \$0.4 million (Q2 2018: \$0.2 million) and amortization of the discount on the acquisition of the bonds of \$0.2 million (Q2 2018: \$0.1 million). The \$1.2 million investment income for the six months ended June 30, 2019 (Q2 2018: \$0.3 million) includes accrued interest of \$0.7 million (Q2 2018: \$0.2 million) and amortization of the discount on the acquisition of the bonds of \$0.5 million (Q2 2018: \$0.1 million). The Company's intent is to hold the bond investments to maturity; however, the bonds are highly liquid by their nature and may readily be converted into cash if necessary.

## Finance expense

<i>\$'000</i>	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2019	2018	2019	2018
Base interest expense	1,561	1,517	3,104	3,055
Participatory interest expense	405	607	1,259	3,745
Interest expense	1,966	2,124	4,363	6,800
Net foreign exchange loss	93	214	185	597
Indirect tax	334	2,799	672	3,063
	<b>2,393</b>	5,137	<b>5,220</b>	10,460

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

The indirect tax of \$0.3 million for the quarter (Q2 2018: \$2.8 million) and \$0.7 million for the six months ended June 30, 2019 (six months ended June 30, 2018: \$3.1 million) is VAT associated with invoices to TANESCO for interest on late payments and invoices under the take or pay provisions within the PGSA. These invoices are not recognized in the financial statements as they do not meet revenue recognition criteria with respect to assurance of collectability (see Note 9). The decrease in indirect tax between periods was a result of no invoice being issued under the take or pay provisions within the PGSA as TANESCO took the required volumes for the one year contract period ended June 30, 2019 (for the one year contract period ended June 30, 2018: \$16.6 million).

## TRADE AND OTHER RECEIVABLES

<b>Current receivables</b>	<b>AS AT</b>	
<i>\$'000</i>	<b>JUNE 30, 2019</b>	DECEMBER 31, 2018
<b>Trade receivables</b>		
Songas	<b>2,059</b>	2,489
Industrial customers	<b>10,969</b>	9,107
Less provision for doubtful accounts	<b>(452)</b>	(452)
	<b>12,576</b>	11,144
<b>Other receivables</b>		
Songas gas plant operations	<b>6,370</b>	6,496
Other	<b>1,896</b>	1,937
Less provision for doubtful accounts	<b>(3,715)</b>	(3,715)
	<b>4,551</b>	4,718
	<b>17,127</b>	15,862
<b>Long-term trade receivables</b>	<b>AS AT</b>	
<i>\$'000</i>	<b>JUNE 30, 2019</b>	DECEMBER 31, 2018
TANESCO receivable	<b>55,000</b>	58,498
Provision for doubtful accounts	<b>(55,000)</b>	(58,498)
Net TANESCO receivable	<b>-</b>	-
VAT Songas workovers	<b>2,205</b>	2,205
Lease deposit	<b>252</b>	219
	<b>2,457</b>	2,424

**TANESCO**

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

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

**Songas**

As at June 30, 2019 Songas owed the Company \$8.4 million (December 31, 2018: \$9.0 million) while the Company owed Songas \$1.8 million (December 31, 2018: \$1.8 million). The amounts due to the Company are mainly for sales of gas of \$2.1 million (December 31, 2018: \$2.5 million) and for the operation of the gas plant of \$6.4 million (December 31, 2018: \$6.5 million) against which the Company has made a provision for doubtful accounts of \$3.7 million (December 31, 2018: \$3.7 million). The amounts due to Songas primarily relate to pipeline tariff charges of \$1.4 million (December 31, 2018: \$1.8 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis.

## 10

## PROPERTY, PLANT AND EQUIPMENT

<i>\$'000</i>	Oil and natural gas interests	Leasehold improvements	Computer equipment	Vehicles	Fixtures & fittings	Total
<b>Costs</b>						
As at December 31, 2018	210,010	699	1,544	449	1,168	213,870
Additions	2,498	–	7	–	–	2,505
<b>As at June 30, 2019</b>	<b>212,508</b>	<b>699</b>	<b>1,551</b>	<b>449</b>	<b>1,168</b>	<b>216,375</b>
<b>Accumulated depletion and depreciation</b>						
As at December 31, 2018	102,753	699	1,409	409	1,126	106,396
Depletion and depreciation	6,751	–	43	21	7	6,822
<b>As at June 30, 2019</b>	<b>109,504</b>	<b>699</b>	<b>1,452</b>	<b>430</b>	<b>1,133</b>	<b>113,218</b>
<b>Net book values</b>						
As at December 31, 2018	107,257	–	135	40	42	107,474
<b>As at June 30, 2019</b>	<b>103,004</b>	<b>–</b>	<b>99</b>	<b>19</b>	<b>35</b>	<b>103,157</b>

In determining the depletion charge, it is estimated that future development costs of \$70.9 million (December 31, 2018: \$72.0 million) will be required to bring the total proved reserves to production. The Company recorded depreciation of \$0.04 million in Q2 2019 (Q2 2018: \$0.05 million) and \$0.1 million in the six months ended June 30, 2019 (six months ended June 30, 2018: \$0.1 million) in general and administrative expenses.

## 11

## TRADE AND OTHER PAYABLES

<i>\$'000</i>	<b>JUNE 30, 2019</b>	AS AT DECEMBER 31, 2018
Songas	<b>1,769</b>	1,785
Other trade payables	<b>2,172</b>	2,725
Trade payables	<b>3,941</b>	4,510
TPDC Profit Gas entitlement, net	<b>36,560</b>	40,260
Accrued liabilities	<b>14,536</b>	14,864
	<b>55,037</b>	59,634
<b>TPDC share of Profit Gas</b>		
<i>\$'000</i>	<b>JUNE 30, 2019</b>	AS AT DECEMBER 31, 2018
TPDC share of Profit Gas	<b>41,114</b>	40,606
Less "Adjustment Factor"	<b>(4,554)</b>	(346)
TPDC share of Profit Gas payable	<b>36,560</b>	40,260

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

## 12

## LONG-TERM LOAN

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

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

Base interest on the Loan is payable quarterly at 10% per annum on a 'pay-if-you-can-basis' using a formula to calculate the net cash available for such payments as at any given interest payment date. The amount of base interest during the quarter was \$1.6 million (Q2 2018: \$1.5 million) and \$3.1 million for the six months ended June 30, 2019 (six months ending June 30, 2018: \$3.1 million).

In addition, the Loan included an annual variable participatory interest equating to 7% of the net cash flow from operating activities less net cash flows used in investing activities of PAET in respect of any given year. Such participatory interest will continue until October 15, 2026 regardless whether the Loan is repaid prior to its contractual maturity date. The participatory interest charged during the quarter was \$0.4 million (Q2 2018: \$0.6 million) and \$1.3 million for the six months ended June 30, 2019 (six months ended June 30, 2018: \$3.7 million). The participatory interest charged in Q1 2018 includes an additional payment of \$2.6 million associated with the sale of a 7.9% interest in PAEM in January 2018 in accordance with the terms of the Loan. As a result of the additional payment, the annual variable participatory interest was reduced to 6.45%. At June 30, 2019 the participatory interest included in accrued liabilities is \$1.4 million (December 31, 2018: \$2.2 million).

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

\$'000	AS AT	
	JUNE 30, 2019	DECEMBER 31, 2018
Loan principal	<b>60,000</b>	60,000
Deferred financing costs	<b>(1,252)</b>	(1,340)
Current portion of loan	<b>(4,760)</b>	(4,760)
	<b>53,988</b>	53,900

## 13

## CAPITAL STOCK

**Authorised**

50,000,000	Class A common shares	No par value
100,000,000	Class B subordinate voting shares	No par value
100,000,000	First preference shares	No par value

The Class A and Class B shares rank pari passu in respect of dividends and repayment of capital in the event of winding-up. Class A shares carry twenty (20) votes per share and Class B shares carry one vote per share. The Class A shares are convertible at the option of the holder at any time into Class B shares on a one-for-one basis. The Class B shares are convertible into Class A shares on a one-for-one basis in the event that a take-over bid is made to purchase Class A shares which must, by reason of a stock exchange or legal requirements, be made to all or substantially all of the holders of Class A shares and which is not concurrently made to holders of Class B shares.

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

	AS AT JUNE 30, 2019			AS AT DECEMBER 31, 2018		
	Authorised (000)	Issued (000)	Amount (\$'000)	Authorised (000)	Issued (000)	Amount (\$'000)
<b>Number of shares</b>						
<b>Class A</b>	<b>50,000</b>	<b>1,750</b>	<b>983</b>	50,000	1,750	983
<b>Class B</b>	<b>100,000</b>	<b>33,490</b>	<b>85,483</b>	100,000	33,506	85,525
<b>First preference</b>	<b>100,000</b>	–	–	100,000	–	–
<b>Total Class A, Class B and first preference</b>	<b>250,000</b>	<b>35,240</b>	<b>86,466</b>	250,000	35,256	86,508

All issued capital stock is fully paid.

**Stock Appreciation Rights ("SARs")**

	SARs (000)	Exercise Price (CDN\$)
Outstanding as at December 31, 2018	645	2.30 to 3.87
Issued	2,007	5.00 to 5.32
Exercised	(263)	2.30 to 3.87
<b>Outstanding as at June 30, 2019</b>	<b>2,389</b>	<b>2.30 to 5.32</b>

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

Exercise Price (CDN\$)	Number outstanding (000)	Weighted average remaining contractual life (years)	Number exercisable (000)	Weighted average exercise price (CDN\$)
2.30	142	0.50	142	2.30
3.02	120	1.51	–	3.02
3.87	120	3.51	30	3.87
5.00 to 5.32	2,007	3.51	–	5.03
<b>2.30 to 5.32</b>	<b>2,389</b>	<b>3.23</b>	<b>172</b>	<b>4.70</b>

**Restricted Stock Units ("RSUs")**

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

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

Exercise Price (CDN\$)	Number outstanding (000)	Number exercisable (000)	Weighted average remaining contractual life (years)
<b>0.01</b>	<b>231</b>	<b>25</b>	<b>3.51</b>

As SARs and RSUs are settled in cash, they are re-valued at each reporting date using the Black-Scholes option pricing model with the resulting liability being recognized in trade and other payables. In the valuation of stock appreciation rights and restricted stock units at the reporting date, the following assumptions have been made: a risk free rate of interest of 1.0%, stock volatility of 31.2% to 45.3%; 0% dividend yield; 5% forfeiture; a closing stock price of CDN\$6.10 per share.

\$'000	ASAT <b>JUNE 30, 2019</b>	DECEMBER 31, 2018
SARs	<b>1,321</b>	1,196
RSUs	<b>226</b>	364
	<b>1,547</b>	1,560

As at June 30, 2019 a total accrued liability of \$1.5 million (December 31, 2018: \$1.6 million) has been recognized in relation to SARs and RSUs which is included in other payables. The Company recognized an expense for the quarter of \$0.9 million (Q2 2018: \$0.4 million) and \$0.9 million for the six months ended June 30, 2019 (six months ended June 30, 2018: \$5.1 million) as stock-based compensation.

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

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

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

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

**14****EARNINGS PER SHARE**

	AS AT JUNE 30	
('000)	2019	2018
<b>Outstanding shares</b>		
Weighted average number of Class A and Class B shares	<b>35,256</b>	35,256
Weighted average diluted number of Class A and Class B shares	<b>35,256</b>	35,256

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

**15****RELATED PARTY TRANSACTIONS**

One of the non-executive Directors is counsel to a law firm that provides legal advice to the Company and its subsidiaries. During the quarter \$0.1 million (Q2 2018: \$0.1 million) and \$0.1 million for the six months ended June 30, 2019 (six months ended June 30, 2018: \$0.2 million) was incurred with this firm for services provided.

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

**16****CONTRACTUAL OBLIGATIONS  
& COMMITTED CAPITAL INVESTMENTS****Protected Gas**

Under the terms of the Gas Agreement for the Songo Songo project ("Gas Agreement"), in the event that there is a shortfall/insufficiency in Protected Gas as a consequence of the sale of Additional Gas, the Company is liable to pay the difference between the price of Protected Gas (\$0.55/MMbtu escalated) and the price of an alternative feedstock multiplied by the volumes of Protected Gas up to a maximum of the volume of Additional Gas sold (201.7 Bcf as at June 30, 2019). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the term of the Protected Gas delivery obligation to July 2024.

Terms of the Gas Agreement were modified by the Amended and Restated Gas Agreement ("ARGA") which was initialed by all parties but remains unsigned. In certain respects, the parties thereto are conducting themselves as though the ARGA is in effect. Management does not foresee a material risk with the conduct of the Company's business with an unsigned ARGA at this time.

**Leases**

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

**Capital Commitments****Tanzania**

There are no contractual commitments for exploration or development drilling or other field development either in the PSA or otherwise agreed which would give rise to significant capital expenditure at Songo Songo. Any significant additional capital expenditure in Tanzania is discretionary.

Completion of the offshore component of Phase A of the Development Program in February 2016 improved field deliverability and provided sufficient natural gas production to fill the Songas plant and pipeline to capacity for the greater portion of the remaining life of the production licence. The Company began work on the onshore component of Phase A of the Development Program in 2018. This includes the installation of a refrigeration unit at the Songas Gas processing plant at an estimated cost of \$8.5 million and well workovers with an estimated cost of \$13.6 million. A total of \$2.2 million was incurred on the refrigeration project in 2019 (2018: \$4.2 million) which is scheduled for completion in Q3 2019. A portion of the workover costs are for wells SS-3 and SS-4 and assuming that Songas, the owner of the wells, funds the costs of these workovers, the estimated cost to the Company will be \$5.1 million. The refrigeration unit installation was completed in early July and is currently undergoing final testing and acceptance.

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

**Italy**

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

## 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 (l) of the Petroleum Act. Article 260 (3) of the Petroleum Act preserves the Company's pre-existing right with TPDC to market and sell Additional Gas together or independently on terms and conditions (including prices) negotiated with third party Natural Gas customers. The impact of the Natural Gas Pricing Regulation, if any, cannot be determined at this time.

### **Cost recovery**

TPDC conducted an audit of the historic Cost Pool and in 2011 disputed approximately \$34 million of costs that had been recovered from the Cost Pool from 2002 through to 2009. In 2014 a substantial portion of the disputed costs were agreed to be cost recoverable by TPDC. Under the dispute mechanism outlined in the PSA, TPDC are to appoint an independent specialist to assist the parties in reaching agreement on costs that are still subject to dispute. In 2014, prior to appointing an independent specialist, TPDC suspended the process. Subsequent to December 31, 2018 discussions on the disputed amounts resumed with TPDC based on the most recent report published by the Tanzanian Attorney General highlighting the lack of progress in resolving the long-standing dispute. At the time of writing this report no independent specialist has been appointed. If the matter is not resolved to the Company's satisfaction, the Company intends to proceed to arbitration via the International Centre for Settlement of Investment Disputes ("ICSID") pursuant to the terms of the PSA.

## Taxation

Area	Period	Tax dispute Reason for dispute	Disputed amount \$' million		
			Principal	Interest	Total
Pay-As-You-Earn ("PAYE") tax	2008-10	PAYE tax on grossed-up amounts in staff salaries which are contractually stated as net.	0.3	–	0.3 <sup>(1)</sup>
Withholding tax ("WHT")	2005-10	WHT on services performed outside of Tanzania by non-resident persons.	1.0	0.7	1.7 <sup>(2)</sup>
Income Tax	2008-15	Deductibility of capital expenditures and expenses (2009 and 2012), additional income tax (2008, 2010, 2011 and 2012), tax on repatriated income (2012), foreign exchange rate application (2013 and 2015) and underestimation of tax due (2014).	28.9	14.1	43.0 <sup>(3)</sup>
VAT	2008-10	Output VAT on imported services and SSI Operatorship services.	2.7	2.7	5.4 <sup>(4)</sup>
			32.9	17.5	50.4

Management, with the advice from its legal counsels, has reviewed the Company's position on the objections and appeals related to the disputed amounts and has concluded that no provision is required with regard to these matters and that the maximum potential exposure is \$50.4 million (December 31, 2018: \$50.1 million). No significant changes occurred during the three months ended 30 June 2019.

- (1) 2015 (\$0.3 million): PAET appealed the Tax Revenue Appeals Board ("TRAB") ruling that PAET is liable to pay PAYE on grossed-up amounts on staff salaries. TRAB waived interest assessed thereon. The Tax Revenue Appeals Tribunal ("TRAT") upheld the TRAB decision which ruled in favour of the TRA on principal tax demanded but waived interest assessed thereon. In 2017 PAET appealed the TRAT ruling to the Court of Appeal of Tanzania ("CAT"). PAET is awaiting the CAT hearing date to be set;
- (2) (a) 2005-2009 (\$1.6 million): In 2016 TRA filed an application for review of the CAT decision in favour of PAET that no WHT was required on services performed outside Tanzania by non-resident persons and later filed another application for leave to amend its earlier application. At the CAT hearing in Q1 2017, TRA withdrew their second application for review. In Q2 2017 the CAT accepted PAET's preliminary objection against the TRA application. On July 28, 2017 TRA filed another application for extension of time for their application, under the certificate of urgency, for the CAT to review its judgement. During Q1 2018 CAT ruled in favour of PAET's preliminary objection. In Q4 2018 the TRA applied to the CAT to file an application for review out of time but consequently withdrew its application at the time the Company was preparing to file a preliminary objection against the application. It is not clear whether the TRA will seek to re-file their application;
- (b) 2010 (\$0.1 million): TRAB is awaiting a ruling from the review by the CAT on the 2005-2009 case which would influence TRAB's decision on this matter accordingly;
- (3) (a) 2008 (\$0.6 million): In Q2 2017 TRA issued an adjusted assessment which accepted PAET's position that there was no tax payable for the year. The assessment, however, did not recognize a tax loss carried forward of \$1.8 million (with tax impact of \$0.6 million). PAET has objected to the assessment for being time-barred, incorrect and arbitrary;
- (b) 2009 (\$2.6 million): In 2015 TRAB ruled against PAET with respect to timing of deductibility of capital expenditures and other expenses (\$1.8 million). In Q2 2017 PAET lost an appeal at TRAT and in July 2018 lost an appeal at CAT. The Company has filed an application for review of the judgement and is awaiting CAT hearing date. In July 2017 TRA sent PAET an amended assessment claiming additional taxes, interest and penalties (\$0.8 million). PAET has objected to the assessment for being time-barred and arbitrary and is awaiting a TRA response;
- (c) 2010 (\$2.4 million): PAET filed an appeal with TRAB against a TRA assessment with respect to timing of deductibility of capital expenditures and other expenses as well as underestimation of interest and penalty amounts. The Company is awaiting a hearing date at TRAB;
- (d) 2011 (\$1.9 million): In Q2 2017 PAET filed an appeal at TRAB against a TRA assessment with respect to timing of deductibility of capital expenditures and other expenses (\$1.7 million). The Appeal Board has set the hearing date of August 28, 2019. PAET is also awaiting a TRA response on an objection of another assessment with respect to alleged late filing penalty and under-estimation of interest (\$0.2 million) raised for the year;
- (e) 2012 (\$15.5 million): In 2016 TRA issued two assessments with respect to understated revenue, timing of deductibility of capital expenditures, expenses and tax on repatriated income. PAET filed an appeal with TRAB against the TRA decision to deny PAET a waiver for payment of a deposit required for its objection to be admitted but was granted a partial waiver only. PAET appealed the decision demanding full waiver of the deposit and also filed an application for the stay of execution with TRAT in response to the TRA demand notice for payment of the deposit, as ruled by TRAB. TRAT upheld the TRAB decision for partial waiver. Aggrieved by the TRAT decision, the Company filed a Notice of Appeal with the Court of Appeal and is awaiting a hearing date;

- (f) 2013 (\$8.4 million): In 2016 PAET filed objections to a TRA assessment with respect to foreign exchange rate application and is awaiting a response. PAET received TRA's assessments for corporation tax (\$1.9 million) which disallowed certain operating costs included in the tax returns and tax on repatriated income (\$6.5 million). PAET has objected to the assessments due to them being time-barred and without merit. PAET has also appealed to TRAB the TRA decision not to exercise its administrative powers judiciously to grant the waiver on one-third deposit required to be paid to admit the objection and is now awaiting a hearing date at TRAB;
- (g) 2014 (\$11.2 million): In 2016 TRA issued an assessment of \$3.3 million with respect to underestimation of tax due based on the provisional quarterly payments made by PAET, delayed filings of returns and late payments. PAET filed objections to the assessments and is awaiting a response. PAET has also appealed to TRAB the TRA decision not to exercise its administrative powers judiciously to grant the waiver on one-third deposit required to be paid to admit the objection and is now awaiting a hearing date at TRAB. TRA issued two additional assessments for the year for corporation tax of \$4.8 million and tax on repatriated income \$3.1 million. PAET has objected to the assessments and is awaiting TRA's response;
- (h) 2015 (\$0.4 million): In 2016 TRA issued a self-assessment. PAET filed an objection to the assessment with respect to foreign exchange rate application and is awaiting a response;
- (4) (a) 2008-2010 (\$5.3 million): In 2016 TRA responded to PAET's objection filed in 2014 and issued an assessment in respect of output VAT on imported services and SSI Operatorship services. PAET filed an appeal with TRAB against the TRA assessment. The appeal was heard on November 1-2, 2018 and the parties are now awaiting the TRAB judgement; and
- (b) 2012-2014 (\$0.1 million): TRA issued an assessment for VAT on other income that PAET had paid. PAET has objected to the assessment. Subsequent to quarter end, TRA responded to the Company's notice of objection by confirming their assessment. The Company has replied to TRA affirming its position and urged TRA to amend the assessment. The Company is now awaiting a response.

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

## 18

### CHANGE IN NON-CASH OPERATING WORKING CAPITAL

\$'000	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2019	2018	2019	2018
Reversal of provision for doubtful accounts	(3,498)	(13,439)	(3,498)	(13,439)
Decrease in trade and other receivables	955	8,340	1,601	7,231
Decrease in prepayments	116	137	435	59
Decrease in trade and other payables	(6,180)	(3,739)	(6,371)	(7,082)
Increase (decrease) in tax payable	1,616	1,039	2,644	(568)
Decrease (increase) in long-term receivables	7	4	(33)	17
	<b>(6,984)</b>	(7,658)	<b>(5,212)</b>	(13,782)

## 19

## NON-CONTROLLING INTEREST

On January 16, 2018 the Company sold 7.9 per cent (7,933 Class A common shares) of its subsidiary, PAEM, to a wholly owned subsidiary of Swala Oil & Gas (Tanzania) plc. ("Swala") for \$15.4 million cash (net of closing adjustments) and \$4.0 million of Swala convertible preference shares pursuant to a share purchase agreement. The preference shares were issued to the Company on June 18, 2018 and entitle the Company to a 10% per annum distribution payable 15 days after each quarter end commencing from the closing date, January 16, 2018. Payment of the quarterly distributions is at the discretion of Swala based on funds available, however, the liability accrues if any amount is unpaid when due. If any distributable amount remains unpaid at December 31, 2021, the Company may demand settlement and Swala is obligated to comply by transferring and returning shares of PAEM sold to Swala; the aggregate value of these shares will equal to the amount of the outstanding distributions. As at June 30, 2019 the Company has not received any distributions or recorded any amount receivable related to the preference shares.

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

The share purchase agreement provided Swala with the right to acquire up to a maximum of 40% of the outstanding Class A shares of PAEM based on the same terms and conditions. The Company terminated this right on March 31, 2019.

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

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

# Corporate Information

## Board of Directors

Nigel Friend Executive Director and Chief Executive Officer Richmond, London United Kingdom	David W. Ross Non-Executive Director Calgary, Alberta Canada	William H. Smith Non-Executive Director Calgary, Alberta Canada	Glenn D. Gradeen Non-Executive Director Calgary, Alberta Canada	Linda Beal Non-Executive Director London, United Kingdom	Jay Lyons Non-Executive Director Vancouver, British Columbia Canada
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## Officers

Nigel Friend Chief Executive Officer Richmond, London United Kingdom	Blaine Karst Chief Financial Officer Calgary, Alberta Canada
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## Operating Office

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## Registered Office

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## Investor Relations

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Chief Executive Officer  
nfriend@orcaexploration.com  
Blaine Karst  
Chief Financial Officer  
bkarst@orcaexploration.com

## International Subsidiaries

### PanAfrican Energy Tanzania Limited

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British Virgin Islands

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Consultants Ltd.  
Calgary, Alberta  
Canada

## Auditors

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Calgary, Alberta  
Canada

## Website

orcaexploration.com

## Lawyers

Burnet, Duckworth  
& Palmer LLP  
Calgary, Alberta  
Canada

## Transfer Agent

AST Trust Company  
Calgary, Alberta, Canada





[www.orcaexploration.com](http://www.orcaexploration.com)