ORCA EXPLORATION GROUP INC.

Q3 2019 MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion & Analysis

THIS MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND NOTES FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TOGETHER WITH THE MD&A FOR THE YEAR ENDED DECEMBER 31, 2018. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON NOVEMBER 18, 2019. ALL AMOUNTS ARE REPORTED IN US DOLLARS ("$") UNLESS OTHERWISE NOTED.

NATURE OF OPERATIONS

The principal operating asset of Orca Exploration Group Inc. ("Orca" or the "Company") is its interest in the Production Sharing Agreement ("PSA") with the Tanzanian Petroleum Development Corporation ("TPDC") and the Government of Tanzania ("GoT") in the United Republic of Tanzania. This PSA covers the production and marketing of certain gas from the Songo Songo licence offshore Tanzania.

The PSA defines the gas produced from the Songo Songo field as "Protected Gas" and "Additional Gas". The Protected Gas is owned by TPDC and is sold under a 20-year gas agreement (until July 31, 2024) to Songas Limited ("Songas"). Songas is the owner of the infrastructure that enables the gas to be treated and delivered to Dar es Salaam, which includes a gas processing plant on Songo Songo Island (the "Songas Infrastructure").

Songas utilizes the Protected Gas as feedstock 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 which is wholly-owned by the GoT, with oversight by the Ministry of Energy ("MoE"). TANESCO is responsible for the majority of generation, transmission and distribution of electricity throughout Tanzania. Natural gas has become an integral component of TANESCO's power generation fuel mix as a more reliable source of supply over seasonal hydro power and a more cost-effective alternative to liquid fuels. The Company currently supplies gas directly to TANESCO by way of the Portfolio Gas Sales Agreement ("PGSA") between the Company, TANESCO and TPDC and indirectly through the supply of Protected Gas and Additional Gas to Songas, which in turn generates and sells power to TANESCO. The gas supplied by the Company to Songas and TANESCO today, via the Songas Infrastructure and the National Natural Gas Infrastructure ("NNGI"), fires approximately 50% of the electrical power generated in Tanzania and approximately 73% of the gas utilized for power generation in the country.

In May 2019 the Company signed a new long-term gas sales agreement ("LTGSA") with TPDC, which replaces the side letter agreement entered into in December 2018. 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 the natural gas is processed before being transported to Dar es Salaam for power and industrial use. On September 25, 2019 an agreement was reached 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 infrastructure limitations at the Songas Infrastructure.

In addition to gas supplied to TPDC, Songas and TANESCO, the Company has developed 42 contracts for the supply of gas to the industrial market in the Dar es Salaam.

Consolidation

The companies which are consolidated in the financial statements and the MD&A are:

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

Results for the three and nine months ended September 30, 2019

SUMMARY

During the quarter the Company completed the installation and testing of the refrigeration unit for the Songas Infrastructure. The refrigeration unit is operational and has enabled the Company to increase the volumes that can be processed and transported to Dar es Salaam through the Songas Infrastructure to 100 MMcfd. This is in addition to volumes delivered through the NNGI under the LTGSA signed in May 2019 with TPDC. The LTGSA was amended in September 2019 to increase the volumes to be supplied through the NNGI from the initially agreed 20 MMcfd to up to 30 MMcfd.

The Company's revenue increased by 42% to $21.5 million in the quarter ended September 30, 2019 (Q3 2018: $15.1 million) and by 41% to $62.4 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $44.3 million). The increase in revenue is primarily a consequence of higher revenues from sales to TANESCO, an increase in profit share percentage from 35% to 55% due to increased volumes between periods and positive current income tax adjustments as a consequence of increased profit between periods. Gas deliveries increased by 45% to 63.4 MMcfd in the quarter ended September 30, 2019 (Q3 2018: 43.6 MMcfd) and by 58% to 60.5 MMcfd for the nine months ended September 30, 2019 (nine months ended September 30, 2018: 38.3 MMcfd).

The Company's net cash flows from operating activities for the quarter ended September 30, 2019 decreased by 28% to $7.6 million (Q3 2018: $10.5 million) and increased by 20% to $29.7 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $24.7 million). The decrease in the quarter is a consequence of the decrease in trade and other payables. The increase in the nine months ended September 30, 2019 is mainly due to an increase in revenue between periods and a decrease in stock based compensation; the nine month results in the comparable prior year period reflected the exercise of significant stock awards in Q1 2018 following completion of the sale of a non-controlling interest in PAEM.

The Company's adjusted funds flow from operations for the quarter ended September 30, 2019 increased by 98% to $10.2 million (Q3 2018: $5.1 million) and increased by 131% to $29.7 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $12.9 million). The increase is primarily the result of increased volumes between periods.

The Company recorded a net income attributable to shareholders of $2.6 million in the quarter ended September 30, 2019 (Q3 2018: $2.6 million) and a net income attributable to shareholders of $12.4 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $10.5 million). The increase of net income attributable to shareholders in the nine months ended September 30, 2019 is primarily a result of the increase in revenue, reduced stock based compensation expense and decreased finance expense offsetting the decrease in finance income, an increase in depletion expense and an increase in Additional Profit Tax between periods.

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

The Company exited the period with $93.3 million in working capital (December 31, 2018: $84.2 million), cash and cash equivalents of $66.2 million (December 31, 2018: $64.7 million), investment in short-term bonds of $76.5 million (December 31, 2018: $66.8 million) and long-term debt of $54.0 million (December 31, 2018: $53.9 million).

On July 25, 2019 the Company announced that a special committee of independent directors (the "Special Committee") had been constituted to review strategic alternatives that might be available to the Company to maximize shareholder value. On September 5, 2019 the Company announced the appointment of RBC Capital Markets ("RBC") to review strategic alternatives for the Company under the direction of the Special Committee.

On September 17, 2019 the Company declared a dividend of CDN$0.06 per share on each of its Class A voting shares ("Class A Shares") and Class B subordinate voting shares ("Class B Shares") for a total of $1.6 million the holders of record as of September 30, 2019 and paid prior to October 31, 2019.

On October 18, 2019 the Company announced the completion of its normal course issuer bid (the "NCIB") for the purchase of its Class B Shares. Under the NCIB the Company repurchased 933,028 Class B Shares at a weighted average price of CDN$6.43 per Class B Share for aggregate consideration of approximately CDN$6,000,000 being the maximum aggregate consideration authorized under the NCIB. The Class B Shares repurchased under the NCIB have been or will be cancelled.

OPERATING VOLUMES

The gross sales volumes for the quarter ended September 30, 2019 increased by 45% to 5,831 MMcf (63.4 MMcfd) from 4,016 MMcf (43.6 MMcfd) in Q3 2018. The gross gas volumes sold for the nine months ended September 30, 2019 increased by 58% to 16,504 MMcf (60.5 MMcfd) from 10,449 MMcf (38.3 MMcfd) for the nine months ended September 30, 2018. The increase in gross sales volume was due primarily to increased sales of natural gas, through the side letter agreement with TANESCO and the new LTGSA, compared to 2018.

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

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2019	2018	**2019**	2018
Gross sales volume *(MMcf)*				
Industrial sector	**1,385**	994	**3,630**	3,539
Power sector	**4,446**	3,022	**12,874**	6,910
Total volumes	**5,831**	4,016	**16,504**	10,449
Gross daily sales volume *(MMcfd)*				
Industrial sector	**15.1**	10.8	**13.3**	13.0
Power sector	**48.3**	32.8	**47.2**	25.3
Total daily sales volume	**63.4**	43.6	**60.5**	38.3

Industrial sector

Industrial sector sales volumes for the quarter ended September 30, 2019 increased by 39% to 1,385 MMcf (15.1 MMcfd) from 994 MMcf (10.8 MMcfd) from the quarter ended September 30, 2018. The increase is primarily due to greater gas sales to a cement plant that had planned maintenance downtime in Q3 2018. The Industrial sector sales volumes for the nine months ended September 30, 2019 increased by 3% to 3,630 MMcf (13.3 MMcfd) from 3,539 MMcf (13.0 MMcfd) for the nine months ended September 30, 2018.

Power sector

Power sector sales volumes for the quarter ended September 30, 2019 increased by 47% to 4,446 MMcf (48.3 MMcfd) from 3,022 MMcf (32.8 MMcfd) for the quarter ended September 30, 2018. The Power sector sales volumes for the nine months ended September 30, 2019 increased by 86% to 12,874 MMcf (47.2 MMcfd) from 6,910 MMcf (25.3 MMcfd) for the nine months ended September 30, 2018. The increase was primarily due to increased gas sales to TANESCO.

Protected Gas volumes

Protected Gas volumes for the quarter ended September 30, 2019 were 3,774 MMcf (Q3 2018: 3,664 MMcf) or average daily volumes of 41.0 MMcfd (Q3 2018: 39.8 MMcfd). Protected Gas volumes for the nine months ended September 30, 2019 were 10,878 MMcf (nine months ended September 30, 2018: 10,488 MMcf) or average daily volumes of 39.8 MMcfd (nine months ended September 30, 2018: 38.4 MMcfd). The Company receives no revenue for the Protected Gas volumes however the volumes are required to calculate total gas produced from the reservoir and the allocation of certain production, distribution and transportation expenses between Protected Gas and Additional Gas.

SONGO SONGO DELIVERABILITY

As at September 30, 2019 the Company had a well production potential of 165 MMcfd, limited by processing and transportation infrastructure, and by contract, to approximately 130 MMcfd. Until well SS-12, which is capable of supplying up to 40 MMcfd, began producing through the NNGI on Songo Songo Island in December 2018 production had been limited to 97 MMcfd due to a combination of Songas Infrastructure capacity limitations and reservoir pressure decline. Through the optimization of the refrigeration unit at the Songas Infrastructure alongside some planned works to de-couple and optimize flow lines for the SS-10 and SS-11 wells, the Company is examining and implementing options to sustain the 130 MMcfd through to the installation of compression, currently scheduled for completion by the end of 2021. This will provide the ability to increase the sustainable level of well production capability from 130 MMcfd to approximately 165 MMcfd achieved by continuing to increase gas produced through the NNGI. The Company is also examining further field development options, including onshore workovers, that may be necessary to sustain such production volumes through to the end of the current licence period.

As at September 30, 2019 all gas sales to TANESCO under the PGSA are being delivered through the Songas Infrastructure. Prior to the completion of the refrigeration project in the quarter, approximately 15 MMcfd of gas was being delivered to TANESCO through the NNGI pursuant to a side letter agreement to the PGSA established with TPDC and TANESCO in December 2018. The side letter agreement was terminated during the quarter on completion of installation of refrigeration, whereupon, all PGSA volumes were again delivered to TANESCO through the Songas Infrastructure.

With the approval of the LTGSA, the Company is selling gas volumes at the well-head, directly to TPDC through the NNGI. Well SS-3 is currently suspended and well SS-4 and well SS-7 have been shut-in. Limited sand production has been identified in well SS-4 and well SS-7. The Company is planning to undertake workovers on well SS-3 and well SS-4 (both onshore wells) in 2020 together with onshore well SS-10. Well SS-7 is an offshore well and will remain shut-in until a suitable opportunity is identified to efficiently address production issues as part of a wider development plan. As at September 30, 2019 well SS-11 is tied into both the Songas Infrastructure and the NNGI but aligned and supplying gas only to the Songas plant while well SS-12 is only tied into the NNGI. The facilities for the connection of well SS-10 to the NNGI are available and the connection can be completed when required. It is currently anticipated that well SS-10 will be realigned and interconnected as and when further volumes to the NNGI are required.

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

COMMODITY PRICES

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

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
$/mcf	**2019**	2018	**2019**	2018
Average sales price				
Industrial sector	**7.84**	9.23	**8.03**	8.20
Power sector	**3.48**	3.78	**3.42**	3.68
Weighted average price	**4.52**	5.12	**4.44**	5.21

Industrial sector

The average gas price achieved for the Industrial sector during the quarter ended September 30, 2019 was $7.84/mcf, a decrease of 15% from $9.23/mcf in Q3 2018. The average price for the nine months ended September 30, 2019 was $8.03/mcf, a decrease of 2% from $8.20/mcf for the nine months ended September 30, 2018. 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.

Power sector

The average gas price achieved for the Power sector during the quarter ended September 30, 2019 was $3.48/mcf, a decrease of 8% from $3.78/mcf in Q2 2018. The average price for the nine months ended September 30, 2019 was $3.42/mcf, a decrease of 7% from $3.68/mcf for the nine months ended September 30, 2018. The decrease is primarily due to the increase in gas volumes sold through the NNGI to TANESCO and TPDC at well head gas prices compared to gas volumes sold through the Songas Infrastructure which include a processing and transportation tariff. Although the average gas price for the three and nine months ended September 30, 2019 is less than the comparative prior year periods, the Company's margins for sales to the Power sector actually increased slightly year on year due to increased deliveries through the NNGI for which the Company does not pay processing and transportation tariffs.

COMPANY OPERATING REVENUE

Under the terms of the PSA, the Company is responsible for invoicing, collecting and allocating the net field revenue from Additional Gas sales. See "Principal Terms of the Tanzanian PSA and Related Agreements" in the MD&A within the 2018 annual report.

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

The average Additional Gas sales volumes for the quarter and nine months ended September 30, 2019 were above 50 MMcfd; as a consequence, the Company was entitled to a 55% share of Profit Gas revenue. The average Additional Gas volumes for the quarter ended September 30, 2018 were above 40 MMcfd which entitled the Company to a 40% share of Profit Gas revenues. The average Additional Gas volumes for the quarters ended March 31, 2018 and June 30, 2018 were below 40 MMcfd which entitled the Company to a 35% share of Profit Gas revenues.

The Company was allocated a total of 64% of the net field revenue for the quarter ended September 30, 2019 (Q3 2018: 58%) and 67% for the nine months ended September 30, 2019 (nine months ended September 30, 2018: 65%).

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

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
$'000	**2019**	2018	**2019**	2018
Industrial sector	**10,848**	9,171	**29,156**	29,017
Power sector	**15,490**	11,409	**44,084**	29,622
Gross field revenue	**26,338**	20,580	**73,240**	58,639
TPDC Profit Gas entitlement	**(8,807)**	(7,643)	**(21,987)**	(18,370)
Company operating revenue	**17,531**	12,937	**51,253**	40,269
Current income tax adjustment	**3,922**	2,187	**11,130**	4,037
Revenue	**21,453**	15,124	**62,383**	44,306
Reconciliation to net field revenue:				
Gross field revenue	**26,338**	20,580	**73,240**	58,639
Tariff for processing and pipeline infrastructure	**(2,081)**	(2,394)	**(5,828)**	(6,161)
Net field revenue	**24,257**	18,186	**67,412**	52,478
Allocation of net field revenue:				
Company Cost Gas revenue	**4,686**	5,448	**18,552**	23,017
Company Profit Gas revenue	**10,764**	5,095	**26,873**	11,091
Company share of net field revenue	**15,450**	10,543	**45,425**	34,108
TPDC Profit Gas entitlement	**8,807**	7,643	**21,987**	18,370
Net field revenue	**24,257**	18,186	**67,412**	52,478

The Company's operating revenue increased 36% to $17.5 million for the quarter ended September 30, 2019 (Q3 2018: $12.9 million). The Company's operating revenue for the nine months ended September 30, 2019 increased by 27% to $51.3 million from $40.3 million for the nine months ended September 30, 2018. The increase for the quarter and nine months ended September 30, 2019 is primarily a result of increased sales to TANESCO and TPDC and higher Profit Gas entitlement.

Revenue presented on the Consolidated Interim Statements of Comprehensive Income may be reconciled to the Company's operating revenue by adding $3.9 million current income tax adjustment for the quarter and adding $11.1 million for the nine months ended September 30, 2019. The Company is liable for income tax in Tanzania, but under the terms of the PSA, TPDC's Profit Gas entitlement is adjusted for the tax payable. To account for this, revenue reflects the current income tax charge grossed up at 30%.

TANESCO impact on revenue

The Company records revenues for sales to TANESCO based on the expected amount to be collected, which represents a percentage of the amounts invoiced to TANESCO determined by comparison of TANESCO's payment history to the amounts invoiced by the Company over the previous three years. Management believes this approach provides the best estimate of TANESCO's ability to pay and remain reasonably current; it also reflects the economic reality of the situation. The percentage used to recognize TANESCO revenue will be reviewed as circumstances require. Since the start of Q2 2018 the Company has been recording 100% of sales to TANESCO as revenue. This is a result of TANESCO's consistent payment history over the last three years.

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

PRODUCTION, DISTRIBUTION AND TRANPORTATION EXPENSES

Well maintenance costs are allocated between Protected Gas and Additional Gas in proportion to their respective sales during the period. The total cost of maintenance for the quarter ended September 30, 2019 was $0.2 million (Q3 2018: $0.1 million) and $0.5 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $0.5 million). Amounts allocated for Additional Gas for the quarter ended September 30, 2019 were $0.1 million (Q3 2018: $0.1 million) and $0.2 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $0.2 million).

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

The processing and transportation tariff charges for the quarter ended September 30, 2019 were $2.1 million (Q3 2018: $2.4 million) and $5.8 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $6.2 million).

Distribution costs represent the direct cost of maintaining the ring main distribution pipeline and pressure reduction stations owned and operated by the Company (security, insurance and personnel). Ring main distribution costs for the quarter ended September 30, 2019 were $0.5 million (Q3 2018: $0.5 million) and $1.6 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $2.0 million). The production, distribution and transportation expenses are detailed in the table below:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
$'000	**2019**	2018	**2019**	2018
Share of well maintenance	**127**	59	**235**	235
Other field and operating costs	**137**	200	**714**	639
	264	259	**949**	874
Tariff for processing and pipeline infrastructure	**2,081**	2,394	**5,828**	6,161
Ring main distribution costs	**549**	512	**1,608**	2,016
Production, distribution and transportation expenses	**2,894**	3,165	**8,385**	9,051

OPERATING NETBACK (1)

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

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
$/mcf	**2019**	2018	**2019**	2018
Gas price - Industrial	**7.84**	9.23	**8.03**	8.20
Gas price - Power (2)	**3.48**	3.78	**3.42**	3.68
Weighted average price for gas	**4.52**	5.12	**4.44**	5.21
TPDC share of revenue	**(1.51)**	(1.90)	**(1.33)**	(1.76)
Well maintenance and other operating costs	**(0.05)**	(0.09)	**(0.06)**	(0.12)
Tariff for processing and pipeline infrastructure	**(0.36)**	(0.59)	**(0.35)**	(0.59)
Ring main distribution costs	**(0.10)**	(0.16)	**(0.10)**	(0.25)
Operating netback	**2.50**	2.38	**2.60**	2.49

(1) *Operating netback is a non-GAAP measure. See non-GAAP measures.*

(2) *The weighted average sales price is stated before the change in TANESCO revenue due to the modified approach used for revenue recognition purposes and represents the weighted average price of the volumes invoiced and delivered.*

The operating netback in the quarter ended September 30, 2019 increased by 5% to $2.50/mcf (Q3 2018: $2.38/mcf) and by 4% to $2.60/mcf for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $2.49/mcf). The increase in the quarter and for the nine months ended September 30, 2019 is predominately due to a reduction in the TPDC share of revenue due to their reduced entitlement to a share of Profit Gas revenue as well as the decreased tariff for processing and pipeline infrastructure as a consequence of increased volumes through the NNGI. This was partially offset by the decrease in the price of gas supplied to the Industrial and Power sectors.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are detailed in the tables below and include the costs of running the natural gas distribution business in Tanzania which is cost recoverable as Cost Gas and is relatively fixed in nature.

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
$'000	**2019**	2018	**2019**	2018
Employee and related costs	**1,259**	1,534	**4,779**	4,816
Office costs	**1,173**	1,124	**3,386**	3,645
Marketing and business development costs	**696**	27	**1,385**	225
Reporting, regulatory and corporate	**649**	195	**1,289**	806
General and administrative expenses	**3,777**	2,880	**10,839**	9,492

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
$'000	**2019**	2018	**2019**	2018
Tanzania	**2,046**	1,749	**6,038**	5,967
Corporate	**1,731**	1,131	**4,801**	3,525
	3,777	2,880	**10,839**	9,492

General and administrative expenses averaged $1.3 million (Q3 2018: $1.0 million) per month during the quarter and $1.2 million per month for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $1.1 million). The increase between periods is primarily due to business development and legal costs related to the strategic review undertaken by the Company and the NCIB initiated in June 2019.

STOCK BASED COMPENSATION

The breakdown of the 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	**2019**	2018	**2019**	2018
Stock appreciation rights ("SARs")	**659**	(480)	**1,456**	2,261
Restricted stock units ("RSUs")	**155**	499	**285**	2,810
Stock based compensation	**814**	19	**1,741**	5,071

As at September 30, 2019 a total of 2,433,833 SARs were outstanding compared to 645,000 as at December 31, 2018. A total of 2,168,500 of new SARs were issued during the nine months ended September 30, 2019 with exercise prices ranging from CDN$5.00 to CDN$6.65. A total of 293,000 SARs with exercise prices ranging from CDN$2.30 to CDN$3.87 were exercised during the nine months ended September 30, 2019 resulting in a total cash payout of $0.6 million. A total of 86,667 SARs with an exercise price of CDN$5.00 were forfeited during the nine months ended September 30, 2019.

As at September 30, 2019 a total of 234,700 RSUs were outstanding compared to 87,500 at December 31, 2018. A total of 217,700 of new RSUs were issued during the nine months ended September 30, 2019 with an exercise price of CDN$0.01. A total of 62,500 RSUs were exercised during the nine months ended September 30, 2019 resulting in a total cash payout of $0.3 million. A total of 8,000 RSUs with an exercise price of CDN$0.01 were forfeited during the nine months ended September 30, 2019.

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 RSUs at the reporting date, the following assumptions have been made: a risk free rate of interest of 1.0%; stock volatility of 24.4% to 40.4%; 0% dividend yield; 5% forfeiture; and a closing price of CDN$6.40 per Class B Share.

As at September 30, 2019 a total accrued liability of $2.3 million (December 31, 2018: $1.6 million) has been recognized in relation to SARs and RSUs. The Company recognized an expense of $0.8 million for the quarter ended September 30, 2019 (Q3 2018: $0.02 million) and an expense of $1.7 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $5.1 million). The larger stock based compensation expense in the first nine months of 2018 was primarily a result of the sale of the non-controlling interest in PAEM in Q1 2018 and the corresponding increase in share price and exercise of awards.

FINANCE INCOME AND EXPENSE

Finance income is detailed in the table below:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
$'000	**2019**	2018	**2019**	2018
Interest income	**214**	104	**429**	498
Investment income	**565**	354	**1,783**	661
Reversal of provision for doubtful accounts	**–**	1,429	**3,498**	14,868
	779	1,887	**5,710**	16,027

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 nine months ended September 30, 2019.

At September 30, 2019 the Company had $76.5 million invested in US dollar short-term bonds with maturity dates from October 2019 to May 2020 and a range of interest rates from 1.125% to 2.375% (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 September 30, 2019 (Q3 2018: $0.4 million) includes accrued interest of $0.4 million (Q3 2018: $0.2 million) and amortization of the discount on the acquisition of the bonds of $0.2 million (Q3 2018: $0.2 million). The $1.8 million investment income for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $0.7 million) includes accrued interest of $1.1 million (nine months ended September 30, 2018: $0.4 million) and amortization of the discount on the acquisition of the bonds of $0.7 million (nine months ended September 30, 2018: $0.3 million). The Company's intent is to hold the bond investments to maturity; however, the bonds are highly liquid by their nature and may readily be converted into cash if necessary.

Finance expense is detailed in the table below:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
$'000	**2019**	2018	**2019**	2018
Base interest expense	**1,579**	1,564	**4,683**	4,619
Participation interest expense	**692**	697	**1,951**	4,442
Interest expense	**2,271**	2,261	**6,634**	9,061
Net foreign exchange loss	**95**	11	**280**	608
Indirect tax	**323**	298	**995**	3,361
	2,689	2,570	**7,909**	13,030

Base and participation interest expense relate to the long-term loan. The base interest expense during the quarter was $1.6 million (Q3 2018: $1.6 million) and $4.7 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $4.6 million). The participation interest expense during the quarter was $0.7 million (Q3 2018: $0.7 million) and $2.0 million for the nine months ended September 30, 2019 (nine month ended September 30, 2018: $4.4 million). The decrease in the participation interest expense is related to an additional payment of $2.6 million in Q1 2018 associated with the sale of a 7.9% interest in PAEM in January 2018 (see "Long-Term Loan").

The indirect tax of $0.3 million for the quarter (Q3 2018: $0.3 million) and $1.0 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $3.4 million) is for VAT associated with invoices to TANESCO for interest on late payments and invoices under the take or pay provisions within the PGSA. These invoices are not recognized in the financial statements as they do not meet revenue recognition criteria with respect to assurance of collectability. The decrease in indirect tax between periods was a result of no invoice being issued under the take or pay provisions within the PGSA as TANESCO took the required volumes for the one year contract period ended June 30, 2019 (invoice for the one year contract period ended June 30, 2018: $16.6 million).

TANESCO

At September 30, 2019 the current receivable from TANESCO was $ nil (December 31, 2018: $ nil). The TANESCO long-term trade receivable at September 30, 2019 was $55.0 million with a provision of $55.0 million compared to $58.5 million (with a provision of $58.5 million) at December 31, 2018. Subsequent to September 30, 2019 the Company has invoiced TANESCO $2.9 million for October 2019 gas deliveries and TANESCO has paid the Company $7.6 million.

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

		AS AT
$'000	**SEPTEMBER 30, 2019**	DECEMBER 31, 2018
Total TANESCO receivable	**123,664**	121,393
Unrecognized amounts not meeting revenue recognition criteria [(i)]	**(68,664)**	(62,895)
Provision for doubtful accounts	**(55,000)**	(58,498)
TANESCO balance per consolidated financial statements	**–**	–

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

TAXATION

Income Tax

Under the terms of the PSA with TPDC and the Government of Tanzania, the Company is liable for income tax in Tanzania at the corporate tax rate of 30%. However, the PSA provides a mechanism by which income tax payable is recovered from TPDC by reducing TPDC's share of Profit Gas and increasing the allocation to the Company. This is reflected in the accounts by increasing the Company's share of revenue by an amount equivalent to income taxes payable.

As at September 30, 2019 there were temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes under the Income Tax Act 2004. Applying the 30% Tanzanian tax rate, the Company has recognized a deferred tax liability of $13.9 million (December 31, 2018: $12.8 million). During the quarter there was a deferred tax charge of $0.2 million compared to a deferred tax recovery of $ nil in Q3 2018. The deferred tax has no impact on cash flow until it becomes a current income tax, at which point the tax is paid and recovered from TPDC's share of Profit Gas.

Additional Profits Tax

Under the terms of the PSA, Additional Profits Tax ("APT") is payable where the Company has recovered its costs plus a specified return out of Cost Gas revenues and Profit Gas revenues. As a result: (i) no APT is payable until the Company recovers its costs out of Additional Gas revenues plus an annual operating return under the PSA of 25% plus the percentage change in the United States Industrial Goods Producer Price Index ("PPI"); and (ii) the maximum APT rate is 55% of the Company's Profit Gas when costs have been recovered with an annual return of 35% plus 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 of the level of expenditure. The Company provides for APT by annually forecasting the total APT payable in the future as a proportion of the forecast Profit Gas over the term of the PSA. The forecast takes into account the timing of future development capital spending. As at September 30, 2019 the current portion of APT payable was $8.4 million (December 31, 2018: $ nil) with a long-term APT payable of $34.5 million (December 31, 2018: $37.6 million).

The effective APT rate of 19.7% (Q3 2018: 19.3%) has been applied to Profit Gas of $10.8 million (Q3 2018: $5.1 million) and $26.9 million for the nine months ended September 30, 2019 ($11.1 million for the nine months ended September 30, 2018). Accordingly, $2.1 million for the quarter ended September 30, 2019 (Q3 2018: $1.0 million) and $5.3 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $2.1 million) of APT has been recognized in earnings.

Additional Profit Tax is summarized in the table below:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
$'000	**2019**	2018	**2019**	2018
Additional Profits Tax	**2,116**	981	**5,283**	2,138

DEPLETION AND DEPRECIATION

Natural gas properties are depleted using the unit of production method based on the production for the period as a percentage of the total future production from the Songo Songo proved reserves. As at December 31, 2018 the estimated proved reserves remaining to be produced over the term of the PSA licence were 261 Bcf (December 31, 2017: 307 Bcf). A depletion expense of $3.7 million for the quarter (Q3 2018: $2.4 million) and $10.4 million for the nine months ended September 30, 2019 ($6.3 million for the nine months ended September 30, 2018) has been recorded in the accounts at an average depletion rate to $0.63/mcf (2018: $0.60/mcf). The increase in the depletion expense is a result of the increased production volumes between periods.

Non-natural gas properties are depreciated as follows:

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

CARRYING AMOUNT OF ASSETS

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

CAPITAL EXPENDITURES

During the quarter ended September 30, 2019 the Company incurred $0.7 million (Q3 2018: $1.4 million) and $3.2 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $3.2 million) in capital expenditures relating primarily to the refrigeration project for the Songas Infrastructure.

	THREE MONTHS ENDED SEPTEMBER 30		**NINE MONTHS ENDED SEPTEMBER 30**	
$'000	**2019**	2018	**2019**	2018
Pipelines and infrastructure	**648**	1,349	**3,146**	3,160
Other capital expenditures	**4**	5	**11**	55
	652	1,354	**3,157**	3,215

CASH FLOW SUMMARY

$'000	THREE MONTHS ENDED SEPTEMBER 30 2019	2018	NINE MONTHS ENDED SEPTEMBER 30 2019	2018
Operating activities				
Net income	**2,958**	2,804	**13,484**	10,653
Non-cash adjustments	**7,195**	3,755	**19,667**	17,072
Interest expense	**2,271**	2,261	**6,634**	9,061
Changes in non-cash working capital (1)	**(4,856)**	1,663	**(10,068)**	(12,119)
Net cash flows from operating activities	**7,568**	10,483	**29,717**	24,667
Net cash used in investing activities	**(980)**	(879)	**(3,228)**	(2,580)
Net cash from (used in) financing activities	**12,513**	(2,367)	**(24,931)**	(83,109)
Increase (decrease) in cash	**19,101**	7,237	**1,558**	(61,022)
Effect of change in foreign exchange on cash	**(3)**	22	**(20)**	141
Net increase (decrease) in cash	**19,098**	7,259	**1,538**	(60,881)

(1) *See Consolidated Interim Statements of Cash Flows*

The Company's net cash flows from operating activities for the quarter ended September 30, 2019 decreased by 28% to $7.6 million (Q3 2018: $10.5 million) and increased by 20% to $29.7 million for the nine months ended September 30, 2019 ($24.7 million for the nine months ended September 30, 2018). The decrease in the quarter is primarily a consequence of the decrease in the non-cash working capital as a result of the increase in trade and other receivables which is offset by a slight increase of trade and other payables in Q3 2019 compared to Q3 2018. The increase in the nine months ended September 30, 2019 is mainly due to an increase in revenue between periods and a decrease in stock based compensation; the nine months ended September 30, 2018 result reflected the exercise of significant share awards following completion of the sale of a non-controlling interest in PAEM in Q1 2018. The decrease in cash used in financing activities is primarily a result of an additional investment in short-term bonds in Q1 2018.

WORKING CAPITAL

Working capital as at September 30, 2019 was $93.3 million (December 31, 2018: $84.2 million) and is detailed in the table below:

$'000		SEPTEMBER 30, 2019		AS AT DECEMBER 31, 2018
Cash		**66,198**		64,660
Investment in short term bonds		**76,529**		66,837
Trade and other receivables		**18,622**		15,862
Songas	2,602		2,489	
TPDC	2,970		–	
Industrial customers	10,152		9,107	
Songas gas plant operations	6,393		6,496	
Other receivables	672		1,937	
Provision for doubtful accounts	(4,167)		(4,167)	
Prepayments		**473**		1,217
		161,822		148,576
Trade and other payables		**65,788**		64,394
TPDC share of Profit Gas revenue [1]	34,871		40,260	
Songas	2,213		1,785	
Other trade payables	2,087		2,725	
Accrued liabilities	13,467		14,864	
Current portion of long-term debt	4,760		4,760	
Current portion of Additional Profits Tax	8,390		–	
Tax payable		**2,754**		–
		68,542		64,394
Working capital		**93,280**		84,182

[1] *The balance of $34.9 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 $7.0 million previously recorded as tax recoverable. The majority of the settlement of this liability is dependent on receipt of payment from TANESCO for arrears. A total of $4.6 million was paid to TPDC in February 2019 for Q4 2018, $5.1 million in April 2019 for Q1 2019, and $6.5 million in July for Q2 2019. The balance of the accrual relates to the profit share associated with trade receivables and the difference between profit share percentages used to record the accrued liability at the time of delivery of the gas to TANESCO versus the profit share percentage used at the time of payment was received. The settlement of this accrual is dependent on the collection of the arrears and resolving compensation issues related to the GoT unilaterally taking away a delivery point in Q4 2016 resulting in reduction of the deliveries and sales of gas to TANESCO. In November 2019 a total of $6.1 million was paid to TPDC.*

Other significant points are:

- There are no restrictions on the movement of cash from Jersey, Mauritius or Tanzania, and over 90% of the Company's cash and investment in short-term bonds is currently held outside of Tanzania.
- The Company expects to have sufficient cash flow from operating activities and maintain adequate working capital to cover both short-term and long-term obligations including forecasted debt and interest payments ($6.3 million) and capital expenditures ($1.3 million) for 2019. The Company does not expect to incur any losses from debtors in 2019.
- Of the $10.2 million receivable relating to industrial customers $6.7 million had been received as at the date of this report.

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LONG-TERM LOAN

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

The term of the Loan is ten years, with no required repayment of principal for the first seven years, followed by a three-year amortization period. The Loan is to be paid out through six semi-annual payments of $5 million starting April 15, 2022 and one final payment of $30 million due on April 15, 2025. The Company may voluntarily prepay all or part of the Loan but must simultaneously pay any accrued base interest costs related to the principal amount being prepaid. If any portion of the Loan is prepaid prior to the fourth anniversary of the first drawdown (taken on December 14, 2015), the Company would be required to pay the accrued base interest as if the prepaid portion of the Loan had remained outstanding for the full four years. The Loan is an unsecured subordinated obligation of PAET and was initially guaranteed by the Company to a maximum of $30 million. The initial guarantee may only be called upon by the IFC at maturity in 2025. Subject to receipt of the IFC approval and required regulatory approvals, the Company, at its discretion, may issue shares in fulfillment of all or part of the guarantee obligation in 2025. Pursuant to the sale of the non-controlling interest in PAEM, the Company agreed with the IFC to reduce the outstanding amount of the loan by the percentage interest sold in PAEM of 7.9% ($4.8 million). PAET made this payment on October 16, 2019.

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 (Q3 2018: $1.6 million) and $4.7 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $4.6 million).

In addition, the Loan included an annual variable participation interest equating to 7.0% of the net cash flow from operating activities less net cash flows used in investing activities of PAET in respect of any given year. Such participation interest will continue until October 15, 2026 regardless whether the Loan is repaid prior to its contractual maturity date. The participation interest during the quarter was $0.7 million (Q3 2018: $0.7 million) and $2.0 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $4.4 million). The participation interest for the nine months ended September 30, 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 participation interest was reduced to 6.45%. At September 30, 2019 the participation interest included in accrued liabilities is $2.1 million (December 31, 2018: $2.2 million).

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

OUTSTANDING SHARES

There were 34,349,432 shares outstanding as at September 30, 2019 as detailed in the table below:

	AS AT	
Number of shares ('000)	**SEPTEMBER 30, 2019**	DECEMBER 31, 2018
Shares outstanding		
Class A shares	**1,750**	1,750
Class B shares	**32,599**	33,506
Class A Shares and Class B Shares outstanding	**34,349**	35,256
Weighted Average		
Class A Shares and Class B Shares	**35,141**	35,256
Weighted average diluted Class A and Class B shares	**35,141**	35,256

As at the date of this report there were a total of 1,750,517 Class A Shares and 32,572,887 Class B Shares outstanding. On June 10, 2019 the Company announced its intention to initiate a NCIB for purchase of its Class B Shares. Purchases made pursuant to the NCIB not to exceed 1,000,000 Class B Shares, representing approximately 3% of the total outstanding. As at September 30, 2019 the Company had repurchased 907,000 Class B Shares at an average price of CDN$6.43. On October 18, 2019 the Company announced that it had completed its NCIB, having repurchased 933,028 Class B Shares at a weighted average price of CDN$6.43 for aggregate consideration of approximately CDN$6.0 million being the maximum aggregate consideration authorized under the NCIB.

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. During the quarter fees of $0.1 million (Q3 2018: $0.1 million) and $0.2 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018: $0.3 million) were incurred with this firm for services provided. As at September 30, 2019 the Company has a total of $0.1 million (December 31, 2018: $0.04 million) recorded in trade and other payables in relation to the related party.

CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

Protected Gas

Under the terms of the Gas Agreement for the Songo Songo project ("Gas Agreement"), in the event that there is a shortfall/insufficiency in Protected Gas as a consequence of the sale of Additional Gas, the Company is liable to pay the difference between the price of Protected Gas ($0.55/MMbtu escalated) and the price of an alternative feedstock multiplied by the volumes of Protected Gas up to a maximum of the volume of Additional Gas sold (207.5 Bcf as at September 30, 2019). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the term of the Protected Gas delivery obligation to July 2024.

Re-Rating Agreement

In 2011 the Company, TPDC and Songas signed a Re-Rating Agreement which evidenced an increase to the gas processing capacity of the Songas Infrastructure to a maximum of 110 MMcfd (the pipeline and delivery pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of the Re-Rating Agreement, the Company paid additional compensation of $0.30/mcf for sales between 70 MMcfd and 90 MMcfd and $0.40/mcf for volumes above 90 MMcfd by issuing credit notes to TANESCO. This was in addition to the tariff of $0.59/mcf payable to Songas as set by the energy regulator, EWURA.

Although Songas notified the Company in 2014 that the Re-Rating Agreement was terminated, the parties have continued to produce, transport and sell gas volumes in line with the re-rated plant capacity. In May 2016 the Company notified TANESCO and Songas that the additional compensation for sales over 70 MMcfd would no longer be paid effective June 2016. The additional compensation was always intended to be temporary in nature until the expansion of the Songas Infrastructure, at which time Songas would apply to EWURA to obtain approval of a new tariff for the processing of volumes over 70 MMcfd. The PGSA provides for passing on to TANESCO any tariff charged to the Company in the event that a new tariff is approved.

The parties to the Re-Rating Agreement are in the process of negotiating a replacement agreement which may address the additional compensation paid through the establishment of an approved tariff from EWURA. In the interim, the processing capacity at the Songas Infrastructure remains unaltered and is fully available for utilization by the Company. This capacity is in addition to the capacity available within the NNGI.

Portfolio Gas Supply Agreement

In June 2011 the PGSA was signed (term to June 30, 2023) between TANESCO (as the buyer) and the Company and TPDC (collectively as the seller). TANESCO requested a change to the PGSA Maximum Daily Quantity which PAET and TPDC approved effective January 29, 2018. The seller is now obligated, subject to infrastructure capacity, to sell a maximum of approximately 26 MMcfd (previously 36 MMcfd) for use in any of TANESCO's current power plants, except those operated by Songas at Ubungo. Under the agreement, the basic wellhead price of approximately $2.98/mcf increased to $3.04/mcf on July 1, 2018 and to $3.10/mcf on July 1, 2019. Previously under the PGSA any sales in excess of 36 MMcfd were subject to a 150% increase in the basic wellhead gas price. On December 22, 2018 a side letter amendment to the PGSA was agreed with TPDC and TANESCO to allow PGSA volumes up to a maximum monthly average volume of 35 MMcfd to temporarily flow through the NNGI. The temporary arrangement was terminated in September 2019 once the refrigeration unit became fully operational and all PGSA volumes were again processed through the Songas Infrastructure.

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 was due to expire on October 31, 2019 at an annual rent of $0.4 million. This agreement has been extended to October 31, 2023. 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 has recognized a one-time settlement cost for the lease of $0.2 million. The lease of the London office is for a twelve-month period starting February 1, 2019 at $0.2 million per annum. The costs of the leases and the settlement cost are recognized in the general and administrative expenses.

Capital Commitments

Tanzania

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

The completion of the offshore component of Phase A of the Development Program in February 2016 improved field deliverability and provided sufficient natural gas production to fill the Songas plant and pipeline to capacity for the greater portion of the remaining life of the production licence. The Company began work on the onshore component of Phase A of the Development Program in 2018 that includes the installation of a refrigeration unit at the Songas Gas processing plant with an estimated cost of $8.5 million and well workovers with an estimated cost of $13.6 million. A total of $2.6 million was incurred on the refrigeration project in 2019 (2018: $4.2 million) which became operational in July 2019 and is awaiting correction of some minor faults currently scheduled for completion in Q4 2019. Simultaneously, the Company is finalising the front-end engineering and design for the installation of compression on the Songas processing plant to enable sustainment of production volumes through to the end of licence.

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 subsidiary companies previously used for the Company's Italian operations are in the process of being wound up.

CONTINGENCIES

Petroleum Act, 2015

The Petroleum Act, 2015 (the "Petroleum Act") repeals earlier legislation, provides a regulatory framework over upstream, mid-stream and downstream gas activity, and consolidates and puts in place a comprehensive legal framework for regulating the oil and gas industry in the country of Tanzania. The Petroleum Act also provides for the creation of an upstream regulator, the Petroleum Upstream Regulatory Authority ("PURA"). The mid and downstream oil and gas activities are proposed to be regulated by the current authority, the EWURA. The Petroleum Act also confers upon TPDC the status of the National Oil Company mandated with the task of managing the country's commercial interest in petroleum operations as well as mid and downstream natural gas petroleum activities. The Petroleum Act vests TPDC with exclusive rights in the entire petroleum upstream and the natural gas mid and downstream value chains. However, the exclusive rights of TPDC do not extend to mid and downstream petroleum supply operations. The Petroleum Act does provide grandfathering provisions upholding the rights of the Company under their PSA as it was signed prior to passing of the Petroleum Act. However, it is still unclear how the provisions of the Petroleum Act will be interpreted and implemented regarding upstream and downstream activities and the Company is uncertain regarding the potential impact on its business in Tanzania.

On October 7, 2016 the Government of Tanzania issued the Petroleum (Natural Gas Pricing) Regulation made under Sections 165 and 258 (I) of the Petroleum Act. Under the Petroleum Act, Article 260 (3) preserves the Company's pre-existing right with TPDC to market and sell Additional Gas together or independently on terms and conditions (including prices) negotiated with third party natural gas customers. The impact of the Natural Gas Pricing Regulation, if any, cannot be determined at this time.

TPDC Back-in

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

Cost recovery

TPDC conducted an audit of the historic Cost Pool and in 2011 disputed approximately \$34.0 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, reducing the amount rejected to \$20.5 million. 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. From 2010 to 2015 TPDC rejected a further \$18.0 million of costs. In 2016 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. Presently neither TPDC or PURA have issued a formal dispute regarding cost recovery.

During 2019 discussions on the disputed amounts from 2014 resumed with TPDC based on a report published by the Attorney General for Tanzania. At the time of writing this report no independent specialist has been appointed. If any of the disputed matters are not resolved to the Company's satisfaction, the Company intends to proceed to arbitration via the International Centre for Settlement of Investment Disputes ("ICSID") pursuant to the terms of the PSA.

Taxation

		Tax dispute	Disputed amounts $' million		
Area	Period	Reason for dispute	Principal	Interest	Total
Pay As You Earn ("PAYE") tax	2008-16	PAYE tax on grossed-up amounts in staff salaries which are contractually stated as net.	1.2	0.3	1.5 (1)
Withholding tax ("WHT")	2005-16	WHT on services performed outside of Tanzania by non-resident persons.	5.7	2.6	8.3 (2)
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).	35.2	15.4	50.6 (3)
VAT	2008-16	Output VAT on imported services and SSI Operatorship services.	2.8	2.8	5.6 (4)
			44.9	21.1	66.0

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 $66.0 million (December 31, 2018: $50.1 million). During the three months ended 30 September 2019 and following completion of audits for the years ended December 31, 2015 and December 31, 2016, Tanzania Revenue Authority ("TRA") issued assessments for $15.1 million with regards to corporation tax, withholding tax, VAT, excise duty and payroll tax. With the exception of $0.1 million of VAT which the Company has conceded, the Company has objected to the other components of the assessment and requested a waiver of the deposit required to allow a dispute of the assessments and is awaiting a TRA response.

(1) (a) 2015 ($0.3 million): PAET appealed the Tax Revenue Appeals Board ("TRAB") ruling that the Company 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 the Company appealed the TRAT ruling to the Court of Appeal of Tanzania ("CAT"). The Company is awaiting the CAT hearing date to be set;

(b) 2015-16 ($1.2 million): During the quarter TRA assessed the Company for PAYE and skills development levy on grossed-up amounts of staff salaries. The Company has objected to the assessment and is awaiting a TRA response;

(2) (a) 2005-2009 ($1.6 million): In 2016 TRA filed an application for review of the CAT decision in favour of the Company 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 the Company'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 the Company'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): During the quarter TRAB issued a judgement in favour of TRA. The Company filed a notice of Intention to appeal and, subsequent to the quarter end, filed a Statement of Appeal with TRAT and is awaiting a hearing date;

(c) 2015-16 ($6.6 million): During the quarter TRA issued six assessments with regards to withholding tax on deemed Tanzanian branch dividend, IFC loan interest, services performed outside of Tanzania by foreign contractors, certain legal and tax consultancy services, IT software leasing services and office rental. The Company has objected to these assessments and is awaiting a TRA response

(3) (a) 2008 ($0.6 million): In Q2 2017 TRA issued an adjusted assessment which accepted the Company'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). The Company has objected to the assessment for being time-barred, incorrect and arbitrary;

(b) 2009 ($2.6 million): In 2015 TRAB ruled against the Company with respect to timing of deductibility of capital expenditures and other expenses ($1.8 million). In Q2 2017 the Company 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 the Company an amended assessment claiming additional taxes, interest and penalties ($0.8 million). The Company has objected to the assessment for being time-barred and arbitrary and is awaiting a TRA response;

(c) 2010 ($2.4 million): The Company 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. TRAB hearing was conducted during the quarter and the Company is now awaiting a judgement;

(d) *2011 ($1.9 million): In Q2 2017 the Company filed an appeal at TRAB against a TRA assessment with respect to missed payment instalments in the assessment ($1.4 million) and disallowance of certain expenses ($0.3 million). The Appeal Board had their hearing and requested written submissions from both parties by the end of November 2019. The Company 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. The Company filed an appeal with TRAB against the TRA decision to deny the Company a waiver for payment of a deposit required for its objection to be admitted but was granted a partial waiver only. The Company 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 which ruled that neither TRAB nor TRAT had jurisdiction to hear and determine the matter. Aggrieved by this decision, the Company filed a Notice of Application for review of this decision and is awaiting a hearing;*

(f) *2013 ($8.6 million): In 2016 the Company filed objections to a TRA assessment with respect to foreign exchange rate application and is awaiting a response. The Company 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 ($6.7 million). The Company has objected to the assessments due to them being time-barred and without merit. The Company 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. TRAB ruled that 5% of the amount in dispute should be paid as a deposit. In response, the Company appealed to TRAT for a full waiver. At the TRAT hearing, TRA filed a preliminary objection disputing the jurisdiction of the Tribunal to hear and determine matters relating to tax deposits. The Company responded to the TRA preliminary objection and is now awaiting TRAT judgement;*

(g) *2014 ($11.3 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 the Company, delayed filings of returns and late payments. The Company filed objections to the assessments and is awaiting a response. The Company 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. TRAB ruled that 5% of the amount in dispute should be paid as a deposit. In response, the Company appealed to TRAT for a full waiver. TRAT has issued summons for the hearing date in November 2019. TRA issued two additional assessments for the year for corporation tax of $4.9 million and tax on repatriated income $3.1 million. The Company has objected to the assessments and is awaiting TRA's response;*

(h) *2015 ($2.4 million): In 2016 TRA issued a self-assessment for $0.4 million. The Company filed an objection to the assessment with respect to foreign exchange rate application and is awaiting a response. During the quarter, TRA issued an adjusted assessment for additional $2.0 million disallowing depreciation allowance on capital expenditure, tax-gross up of revenue for the tax adjusted to Company and TPDC profit shares, and exchanges losses. The Company has objected to the assessment and is awaiting a TRA response;*

(i) *2016 ($5.3 million): During the quarter TRA issued an adjusted assessment disallowing the timing of depreciation allowance on an offshore well drilled during the year, tax-gross up in revenue for the tax adjusted to Company and TPDC profit shares, and certain other expenses. The Company has objected to the assessment and is awaiting a TRA response;*

(4) (a) *2008-2010 ($5.4 million): In 2016 TRA responded to the Company's objection filed in 2014 and issued an assessment in respect of output VAT on imported services and SSI Operatorship services. The Company filed an appeal with TRAB against the TRA assessment. Subsequent to September 30, 2019, TRAB issued its written judgement in favour of TRA. In response, management filed a Notice of Appeal at TRAT which has set the hearing date of November 19, 2019.*

(b) *2015-16 ($0.2 million): During the quarter TRA issued an assessment on disallowed input VAT for certain costs considered to be non-economic activities or to which TRA considered input VAT to be disallowed or restricted. The Company has objected to the assessment and is awaiting a TRA response.*

Subsequent to September 30, 2019:

1) *The Company filed an application to TRA for a full waiver of a one-third deposit amounting to $5.1 million required to be paid to admit objections in respect of assessments raised for 2015 and 2016 as discussed above. TRA responded by granting only a partial waiver. In response, the Company appealed to TRAB the TRA decision not to exercise its administrative powers judiciously to grant the full waiver on one-third deposit required to be paid to admit the objection: and*
2) *TRA issued a Demand Notice for payment of taxes assessed which are at various stages of dispute resolutions at TRA, TRAT or CAT and for the deposits required to admit the objections. The Company responded to TRA explaining the reasons for non-payment of taxes in disputes and has filed applications for ex-parte orders for stay of executions of the Demand Notice pending hearing and determination of the matters and is awaiting hearing dates.*

In 2016 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. 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 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 the Company is able to recover taxes payable from TPDC Profit Gas entitlement under the terms of the PSA.

ACCOUNTING CHANGES

New accounting policies

IFRS 16: Leases

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

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

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

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

At inception of a contract, the 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 earnings if the carrying amounts of the right-of-use asset has been reduced to nil.

Short-term leases and leases of low value assets

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

NORMAL COURSE ISSUER BID AND DIVIDENDS

On October 18, 2019 the Company announced the completion of its NCIB for the purchase of its Class B Shares. Total purchases made under the NCIB were 933,028 Class B Shares at an average price of CDN$6.43 for a total consideration of CDN$6 million, the maximum consideration authorized under the NCIB.

On September 17, 2019 the Company declared a dividend of CDN$0.06 per share on each of its Class A Shares and Class B Shares totaling $1.6 million and payable to the holders of record as of September 30, 2019 and paid prior to October 31, 2019.

On May 29, 2019 the Company declared a dividend of CDN$0.06 per share on each of its Class A Shares 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 Shares and Class B Shares totaling $1.3 million and payable to the holders of record as of March 31, 2019 and paid prior to April 30, 2019.

NON-CONTROLLING INTEREST

On January 16, 2018 the Company sold 7.9 per cent (7,933 Class A common shares) of its subsidiary, PAEM, to a wholly owned subsidiary of Swala Oil & Gas (Tanzania) plc. ("Swala") for $15.4 million cash (net of closing adjustments) and $4.0 million of Swala convertible preference shares ("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 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, 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 Preference Shares are redeemed. If at any time Swala does not redeem in cash the required number of Preference Shares, Swala shall be obligated to redeem the Preference Shares by transferring and returning 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.

The share purchase agreement provided Swala with the right to acquire up to a maximum of 40% of the outstanding Class A common 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	**NINE MONTHS ENDED SEPTEMBER 30, 2019**	YEAR ENDED DECEMBER 31, 2018
Balance, beginning of period	**471**	–
Recorded at the date of disposition	**–**	178
Share of post-disposition income	**1,105**	293
Dividends paid	**(952)**	–
Balance, end of period	**624**	471

SUMMARY QUARTERLY RESULTS

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

	2019			2018				2017
Figures in $'000 except where otherwise stated	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
Revenue	**21,453**	20,994	19,936	13,460	15,124	14,959	14,223	10,619
Net income (loss) attributable to shareholders	**2,591**	7,004	2,784	2,751	2,637	12,493	(4,611)	(4,684)
Earnings (loss) per share – basic and diluted *($)*	**0.07**	0.19	0.08	0.08	0.07	0.35	(0.13)	(0.13)
Adjusted funds flow from operations [(1)]	**10,153**	10,463	9,037	6,398	5,130	4,752	2,975	62
Adjusted funds flow from operations per share – basic and diluted *($)*	**0.29**	0.30	0.26	0.18	0.15	0.14	0.08	0.00
Net cash flows from operating activities	**7,568**	8,943	13,206	4,085	10,483	12,657	1,527	12,882
Net cash flows per share - basic and diluted *($)*	**0.22**	0.25	0.37	0.12	0.30	0.36	0.04	0.37
Operating netback [(1)] *($/mcf)*	**2.50**	2.81	2.48	1.88	2.38	3.18	2.23	2.26
Working capital	**93,280**	99,213	90,325	84,182	79,955	72,129	65,201	69,575
Long-term loan	**54,033**	53,988	53,943	53,900	58,603	58,596	58,557	58,518
Shareholders' equity	**97,315**	100,269	95,332	93,702	91,336	89,018	76,636	78,731
Capital expenditures								
Pipeline and infrastructure	**648**	1,413	1,085	2,561	1,349	1,042	792	442
Other equipment	**4**	–	7	67	5	–	27	30
Total	**652**	1,413	1,092	2,628	1,354	1,042	819	472
Operating								
Additional Gas sold *(MMcf)*								
– industrial	**1,385**	1,197	1,048	1,194	994	1,294	1,251	1,110
– power	**4,446**	3,956	4,472	2,929	3,022	1,774	2,114	2,428
Total	**5,831**	5,153	5,520	4,123	4,016	3,068	3,365	3,538
Additional Gas sold *(MMcfd)*								
– industrial	**15.1**	13.1	11.6	13.0	10.8	14.2	13.9	12.1
– power	**48.3**	43.5	49.7	31.8	32.8	19.5	23.5	26.4
Total	**63.4**	56.6	61.3	44.8	43.6	33.7	37.4	38.5
Average price per mcf *($)*								
– industrial	**7.84**	8.32	7.97	8.44	9.23	7.80	7.79	7.78
– power	**3.48**	3.35	3.43	3.68	3.78	3.62	3.60	3.63
Weighted Average	**4.52**	4.50	4.29	4.31	5.12	5.39	5.16	4.93

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

PRIOR EIGHT QUARTERS

The amount of revenue recorded from Q4 2017 to Q1 2018 has been impacted by the Company recording in revenue a percentage of gas delivered to TANESCO. The amount recorded in revenue was based on the expected amount to be collected due to the poor payment history during the previous three years. Since the start of Q1 2018 the Company has been recording 100% of gas deliveries to TANESCO in revenue as a result of the improved TANESCO payment history during the previous 24 months.

The increase in revenue from Q4 2017 to Q1, Q2, and Q3 2018 was impacted by the reversal of TANESCO deferred revenue to income during Q1, Q2, and Q3 2018 as a result of the improved TANESCO payment history. The increase in revenue from Q4 2018 to Q1, Q2, and Q3 2019 was positively impacted by a significant increase in deliveries to TANESCO and positive current income tax adjustments as a consequence of recording a profit in the period.

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

- The increase in Q2 2018 resulted from the reversal of the provision for doubtful accounts against TANESCO and the corresponding increase in finance income of $13.4 million. The $2.6 million net income attributable to shareholders in Q3 2018 is a result of selling 43.6 MMcfd of Additional Gas, the first time the sales volumes have been over 40 MMcfd since Q3 2017, together with the reversal of a provision for doubtful accounts against TANESCO resulting in an increase in finance income of $1.4 million. The increased sales volumes were maintained through Q4 2018, Q1 2019, Q2 2019, and Q3 2019. The increase in net income in Q2 2019 reflects the increase in finance income related to the collection of $3.5 million of TANESCO arrears. The decrease in net income in Q3 2019 was a result of decreased collection of TANSECO arrears compared with Q2 2019.
- The Company recorded an interest expense of $2.6 million in Q4 2017, $4.7 million in Q1 2018, $2.1 million in Q2 2018, $2.3 million in Q3 2018, $1.9 million in Q4 2018, $2.4 million in Q1 2019, $2.0 million in Q2 2019, and $2.3 million in Q3 2019. The increase in Q1 2018 primarily relates to the participation interest payable as a result of the sale of a non-controlling interest in PAEM in accordance with the terms of the IFC loan.
- Changes in stock based compensation due to fluctuations in the Company share price and issuance of new RSUs:
    - Q4 2017: Charge of $2.1 million. The Class B Share price closed at CDN$5.00.
    - Q1 2018: Charge of $4.6 million as a result of the exercise of both stock appreciation rights and RSUs at prices as high at CDN$6.70 as the Class B Share price increased during the quarter with the sale of the non-controlling interest in PAEM. The Class B Share price closed at CDN$5.50.
    - Q2 2018: Charge of $0.4 million, Class B Share price closed at CDN$5.28.
    - Q3 2018: No significant charge in the quarter, Class B Share price closed at CDN$5.69. Class B Share price increase was offset by the forfeiture of 100,000 SARs.
    - Q4 2018: Credit of $0.4 million as a consequence of the decline in the Class B Share price to CDN$5.05.
    - Q1 2019: Charge of $0.05 million, Class B Share price closed at CDN$4.95.
    - Q2 2019: Charge of $0.9 million predominantly as a result of issuance of 2,006,500 SARs and 205,700 RSUs. The Class B Share price closed at CDN$6.10.
    - Q3 2019: Charge of $0.8 million, Class B Share price closed at CDN$6.40.

Differences in adjusted funds flow from operations for the last eight quarters were primarily a result of changes in volume and prices during the periods. The increase from Q1 2018 to Q2 2018 was due in part to the continuing consistent payments from TANESCO resulting in a combination of recording 100% of TANESCO deliveries as revenue in Q2 2018 together with recording the TANESCO deferred revenue balance as revenue for the period. The increase was partially offset by the increase in TPDC profit share. The increase from Q3 2018 to Q4 2018 was partially related to the reduction in the level of provision against the Songas operatorship. The increase from Q4 2018 to Q1 2019 is primarily due to the increase in revenue between periods. The increase from Q1 2019 to Q2 2019 is partially due to the consistent payments from TANESCO resulting in an increase in finance income of $3.5 million related to collection of arrears. The decrease from Q2 2019 to Q3 2019 was partially due to decreased collections of TANSECO arrears compared with Q2 2019.

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

The decrease in working capital between Q4 2017 and Q1 2018 from $69.6 million to $65.2 million is primarily due to the increase in stock-based compensation payments between periods. The increase in working capital between Q1 2018 and Q2 2018 is a result of the improved collections from TANESCO resulting in zero deferred revenue being carried in current liabilities. The increase in working capital between Q2 2018 to Q1 2019 is a result of the continued collection of TANESCO long-term arrears, increases in revenue in Q1 2019 and the reduction in the level of long-term bonds from $7.2 million in Q2 2018 to $3.8 million in Q3 2018 and to $ nil in Q4 2018 and in Q1 2019. The increase from Q1 2019 to Q2 2019 is a result of the continued collection of TANESCO long-term arrears offset by the decrease in liabilities associated with the TPDC Profit Gas entitlement. There was a decrease in working capital from Q2 2019 to Q3 2019 primarily due to funds being utilized for the purchase of Class B Shares pursuant to the NCIB and the transfer of part of the APT from long-term to current liability.

Capital expenditure for the last four quarters amounted to $5.8 million compared to $3.7 million from Q4 2017 to Q3 2018. The capital expenditures in the four quarters ended Q3 2019 primarily relate to the ongoing completion of the work on the refrigeration project on Songo Songo Island.

The level of Industrial sector sales volumes in the four quarters ended Q3 2019 averaged 1,206 MMcf (four quarters ended Q3 2018: 1,162 MMcf) with total Industrial sector sales volumes for the four quarters ended Q3 2019 increasing to 4,824 MMcf (13.2 MMcfd) compared to 4,649 MMcf (12.8 MMcfd) in the four quarters ended Q3 2018. The decrease is primarily a result of a planned and unplanned maintenance at a cement plant in the comparable period.

The level of Power sector sales volumes increased by 69% in the four quarters ended Q3 2019 to an average of 3,951 MMcf (four quarters ended Q3 2018: 2,335 MMcf) with total Power sector sales volumes for the four quarters ended Q3 2019 increasing to 15,803 MMcf (43.3 MMcfd) compared to 9,338 MMcf (25.6 MMcfd) in the four quarters ended Q3 2018. The increase is the result of higher offtakes by TANESCO in the four quarters ended Q3 2019.

BUSINESS RISKS

See "Business Risks" in the MD&A for the year ended December 31, 2018 for a complete discussion of the business risks of the Company.

Financing

The ability of the Company to meet its financing obligations or to arrange financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company would be successful in its efforts to meet its current commitments or arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from treasury of the Company, control of the Company may change and shareholders may suffer additional dilution.

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

Collectability of Receivables

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

Prior to 2017 TANESCO payments had been inconsistent and resulted in the Company recording provisions for doubtful accounts for amounts outstanding from TANESCO for more than 60 days. Commencing the last quarter of 2016, the Company began recording revenues for sales to TANESCO based on the expected amount to be collected, which represents a percentage of the amounts invoiced to TANESCO determined by comparison of TANESCO's payment history with the amounts invoiced by the Company over the previous three years. Management believes this approach provides the best estimate of TANESCO's ability to pay and remain reasonably current and as well reflects the economic reality of the situation.

The percentage used to recognize TANESCO revenue is reviewed on at least a semi-annual basis, more frequently if circumstances require, and if there is a significant difference between the amounts of revenue recorded and amounts received; the percentage used to record revenue as well as any existing receivable or deferred revenue balance is revised accordingly. The percentage was increased effective October 1, 2017, January 1, 2018 and April 1, 2018 to reflect the most recent three-year payment history for TANESCO compared with amounts invoiced for deliveries. For the past five quarters the Company has recorded 100% of TANESCO sales as revenue as receipts from TANESCO continue to be sufficient to pay for current gas deliveries.

At September 30, 2019 the current receivable from TANESCO was $ nil (December 31, 2018: $ nil). The TANESCO long-term trade receivable at September 30, 2019 was $55.0 million with a provision of $55.0 million compared to $58.5 million (with a provision of $58.5 million) at December 31, 2018. Subsequent to September 30, 2019 the Company has invoiced TANESCO $2.9 million for October 2019 gas deliveries and TANESCO has paid the Company $7.6 million.

As at September 30, 2019 Songas owed the Company $9.0 million (December 31, 2018: $9.0 million) while the Company owed Songas $2.2 million (December 31, 2018: $1.8 million). The amounts due to the Company are mainly for sales of gas of $2.6 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 $1.7 million (December 31, 2018: $1.8 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis.

Access to Songas processing and transportation

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

As a result of the Ubungo power plant re-rating that occurred in 2011, pursuant to the Re-Rating Agreement, the capacity of the Songas gas processing plant was increased to a maximum of 110 MMcfd (restricted to 102 MMcfd because of pipeline and delivery pressure requirements). There remains a disagreement as to the current status of the Re-Rating Agreement and parties are in the process of negotiating a replacement to it. However, without the Re-Rating Agreement Songas, the owner of the gas processing plant, may require the plant to be operated at its original capacity of 70 MMcfd which would result in a material reduction in the Company's sales volumes. This risk has been significantly mitigated with the signing of AGP2 by PAET, Songas and TPDC with approval of the MoE which acknowledges that production from the Songas facility is to continue based on the increased re-rated capacity.

Recent Legislation

The Petroleum Act, passed in 2015, repealed earlier legislation and provides a regulatory framework over upstream, mid-stream and downstream gas activity and consolidates and puts in place a comprehensive legal framework for regulating the oil and gas industry in the country. The Petroleum Act also provides for the creation of an upstream regulator, the Petroleum Upstream Regulatory Authority ("PURA"). The mid and downstream oil and gas activities are proposed to be regulated by the current authority, the Energy and Water Utilities Regulatory Authority ("EWURA"). The Petroleum Act also confers upon on TPDC, the status of the National Oil Company, mandated with the task of managing the country's commercial interest in petroleum operations as well as mid and downstream natural gas activities. The Petroleum Act vests TPDC with exclusive rights in the entire petroleum upstream and the natural gas mid and downstream value chains. However, the exclusive rights of TPDC do not extend to mid and downstream petroleum supply operations. The Petroleum Act does provide grandfathering provisions upholding the rights of the Company under their PSA as it was signed prior to passing of the Petroleum Act.

On October 7, 2016 the GoT issued the Petroleum (Natural Gas Pricing) Regulation made under Sections 165 and 258 (I) of the Petroleum Act. Under the Petroleum Act, Article 260 (3) preserves the Company's pre-existing right with TPDC to market and sell Additional Gas together or independently on terms and conditions (including prices) negotiated with third party natural gas customers.

On July 15, 2017 the GoT passed into law the Natural Wealth and Resources (Permanent Sovereignty) Act, 2017, the Written Laws (Miscellaneous Amendments) Act, 2017, and The Natural Wealth and Resources Contracts (Review and Re-Negotiation of Unconscionable Terms) Act, 2017. The first and second of these acts are forward looking and only apply to agreements entered into on or after July 15, 2017. These acts contain new regulations including but not limited to regulations that all arbitration processes must be heard within Tanzania and restrict the ability to move funds out of Tanzania. The third act is rearward looking and provides the right of the GoT to renegotiate contract clauses that are deemed to have unconscionable terms.

It is still unclear how the provisions of the Petroleum Act and legislation will be enacted and implemented. The Company is uncertain regarding the potential impact on its business in Tanzania.

Amended and Restated Gas Agreement

The ARGA provides clarification of the Protected Gas volumes and removes all terms dealing with the security of the Protected Gas and contract terms dealing with the consequences of any insufficiency are dealt with in a proposed Insufficiency Agreement ("IA"). The ARGA was initialed by all parties but both the ARGA and IA remain unsigned as at the date of this report. In certain respects, the parties thereto are conducting themselves as though the ARGA is in effect. Management does not foresee a material risk with the conduct of the Company's business with an unsigned ARGA at this time.

NON-GAAP MEASURES

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

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

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
$'000	**2019**	2018	**2019**	2018
Net cash flows from operating activities	**7,568**	10,483	**29,717**	24,667
Interest expense	**(2,271)**	(2,261)	**(6,634)**	(9,061)
Finance income – TANESCO arrears	**–**	(1,429)	**(3,498)**	(14,868)
Changes in non-cash working capital	**4,856**	(1,663)	**10,068**	12,119
Adjusted funds flow from operations	**10,153**	5,130	**29,653**	12,857

The Company's adjusted funds flow from operations for the quarter ended September 30, 2019 was $10.2 million (Q3 2018: $5.1 million). For the nine months ended September 30, 2019 there was an increase in adjusted funds flow from operations to $29.7 million (nine months ended September 30, 2018: $12.9 million). The increase in funds flow from operations is primarily due to the increase in revenue driven by increased sales volumes partially offset by a decrease in prices.

- Operating netbacks represent the profit margin associated with the production and sale of additional gas and is calculated as revenues less processing and transportation tariffs, government parastatal's revenue share, operating and distribution costs for one thousand standard cubic feet of additional gas. This is a key measure as it demonstrates the profit generated from each unit of production and is widely used by the investment community.
- Adjusted funds flow from operations per share is calculated on the basis of the adjusted funds flow from operations divided by the weighted average number of shares outstanding during the period.
- 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 outstanding during the period.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Critical judgements in applying accounting policies:

A. Collectability of receivables

The Company evaluates the collectability of its receivables on the basis of payment history, frequency and predictability, as well as Management's assessment of the customer's willingness and ability to pay. Management performs impairment tests each period on the Company's current and long-term receivables. As a result of TANESCO's inability to fully pay all amounts invoiced by the Company prior to 2017, management of the Company modified its approach to revenue recognition as it relates to TANESCO only. The Company records revenues for sales to TANESCO based on the expected amount to be collected which represents a percentage of the amounts invoiced to TANESCO determined by comparison of TANESCO's historical payment history to the amounts invoiced by the Company over the previous three years. Management believes this approach provides the best estimate of TANESCO's ability to pay and remain reasonably current and as well reflects the economic reality of the situation.

The percentage used to recognize TANESCO revenue will be reviewed as circumstances require and if there is a significant difference between the amount of revenue recorded and amounts received, the percentage used to record revenue as well as any existing receivable or deferred revenue balance will be revised accordingly. Currently, given the consistent payment pattern from TANESCO, 100% of invoices for gas deliveries was recognized as revenue for the past five quarters.

B. Financial instrument classification and measurement

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

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

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

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

FORWARD LOOKING STATEMENTS

This management's discussion and analysis ("MD&A") contains forward-looking statements or information (collectively, "forward-looking statements") within the meaning of applicable securities legislation. More particularly, this MD&A contains, without limitation, forward-looking statements pertaining to the following: the Company's expectations regarding supply and demand of natural gas; anticipated power sector revenues; potential impact of TPDC future back-in rights on the economic terms of the PSA; ability to meet all conditions under the IFC financing agreement; the Company's estimated spending for the planned Development Program for 2019, which includes the tie-in of wells to processing facilities, well workovers and installation and optimization of a refrigeration unit on the Songas processing facility to ensure gas production can continue at the requisite specification and volumes and enable production through the NNGI; the potential impact of the Petroleum Act and the Finance Act, 2016 on the Company's business in Tanzania; the potential impact of the recently enacted Natural Wealth and Resources (Permanent Sovereignty) Act, 2017, the Natural Wealth and Resources Contracts (Review and Re-Negotiation of Unconscionable Terms) Act, 2017 and The Written Laws (Miscellaneous Amendments) Act, 2017; the Company's belief that the parties to the unsigned ARGA will continue to conduct themselves in accordance with the ARGA until a new gas sales agreement is signed; the Company's expectation that, despite the Re-Rating Agreement of the gas processing plant owned by Songas having expired, the Songas gas processing plant production volumes will not be restricted; the anticipated effect of the Second AGP2 signed in 2017 on the Company's available volumes of Additional Gas for sale; additional Songo Songo field developments contemplated in connection with AGP2; the current and potential production capacity of the Songo Songo field; the Company's ability to access new markets; the Company's ability to produce additional volumes; the Company's ability to access additional processing and transportation capacity; the status of ongoing negotiations with TPDC; the potential increase in sales volumes associated with new gas sales agreements; the Company's ability to locate and bring online additional supply in the future; the Company's expectation that it can expand and maintain the deliverability of gas volumes in excess of the existing Songas Infrastructure; the expected effects of the completion and optimization of the refrigeration unit at the Songas Infrastructure on, amongst other things, the Company's contractual commitments, natural gas volumes, and production; expected impact of the LGTSA on processing and the Company's business; the forward-looking statements under "Contractual Obligations and Committed Capital Investment"; the Company's expectation that it will not have a shortfall during the term of the Protected Gas delivery obligation to July 2024; and the Company's expectations in respect of its appeals on the decisions of the Tax Revenue Appeals Tribunal and other statements under "Contingencies – Taxation". In addition, statements relating to "reserves" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be produced profitably in the future. The recovery and reserve estimates of the Company's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Although management believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, access to resources and infrastructure, performance or achievement since such expectations are inherently subject to significant business, economic, operational, competitive, political and social uncertainties and contingencies.

These forward-looking statements involve substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control, and many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by the Company, including, but not limited to: failure to receive payments from TANESCO; risk that the potential financing solutions to resolve the TANESCO arrears are not implemented by the Tanzanian government; risk that additional gas volumes available to the NNGI from third parties will replace all or a portion of the volumes currently nominated by TANESCO under the PGSA until additional gas-fired power generation is brought on-stream to consume all of the Company's available gas production; risk that the Development Program is not completed as planned and the actual cost to complete the Development Program exceeds the Company's estimates; risk that the remaining well workovers under the Development Program are unsuccessful or determined to be unfeasible; risk of a lack of access to Songas processing and transportation facilities; risk that the Company may be unable to complete additional field development to support the Songo Songo production profile through the life of the licence; risk that the Company may be unable to develop additional supply or increase production values; risks associated with the Company's ability to complete sales of

Additional Gas; potential negative effect on the Company's rights under the PSA and other agreements relating to its business in Tanzania as a result of the recently approved Petroleum Act and recently enacted legislation, as well as the risk that such legislation will create additional costs and time connected with the Company's business in Tanzania; risks regarding the uncertainty around evolution of Tanzanian legislation; risk that the Company will not fully recover Songas' share of capital expenditures associated with the workovers of wells SS-5 and SS-9; risk that the Company will not be successful in appealing claims made by the TRA and may be required to pay additional taxes and penalties; the impact of general economic conditions in the areas in which the Company operates; civil unrest; industry conditions; changes in laws and regulations including the adoption of new environmental laws and regulations, impact of new local content regulations and variances in how they are interpreted and enforced; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices, foreign exchange or interest rates; stock market volatility; competition for, among other things, capital, drilling equipment and skilled personnel; failure to obtain required equipment for drilling; delays in drilling plans; failure to obtain expected results from drilling of wells; effect of changes to the PSA on the Company as a result of the implementation of the new government policies for the oil and gas industry; changes in laws; imprecision in reserve estimates; the production and growth potential of the Company's assets; obtaining required approvals of regulatory authorities; risks associated with negotiating with foreign governments; inability to satisfy debt obligations and conditions; failure to successfully negotiate agreements; and risk that the Company will not be able to fulfil its contractual obligations. In addition, there are risks and uncertainties associated with oil and gas operations, therefore the Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by these forward-looking statements will transpire or occur, or if any of them do so, what benefits the Company will derive therefrom. Readers are cautioned that the foregoing list of factors is not exhaustive.

Such forward-looking statements are based on certain assumptions made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate in the circumstances, including, but not limited to, that the Company will be able to negotiate Additional Gas sales contracts in relation to AGP2; the ability of the Company to complete additional developments and increase its production capacity; the actual costs to complete the Company's development Program are in line with estimates; the Company's ability to complete and optimize the Songas Infrastructure's refrigeration unit as expected; that there will continue to be no restrictions on the movement of cash from Mauritius or Tanzania; that the Company will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Company will successfully negotiate agreements; receipt of required regulatory approvals; the ability of the Company to increase production as required to meet demand; infrastructure capacity; commodity prices will not further deteriorate significantly; the ability of the Company to obtain equipment and services in a timely manner to carry out exploration, development and exploitation activities; future capital expenditures; availability of skilled labour; timing and amount of capital expenditures; uninterrupted access to infrastructure; the impact of increasing competition; conditions in general economic and financial markets; effects of regulation by governmental agencies; that the Company's appeal of various tax assessments will be successful; that the enactment of the Petroleum Act and new legislation in Tanzania will not impair the Company's rights under the PSA to develop and market natural gas in Tanzania; current or, where applicable, proposed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; and other matters.

The forward-looking statements contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

ADDITIONAL INFORMATION

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