Q3 2021 Interim Financial Statements and Notes

NOTIFICATION OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the three and nine-month periods ended September 30, 2021.

Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited)

		Three months ended September 30		Nine months ended September 30	
$'000	Note	2021	2020	2021	2020
Revenue	6, 7	**22,271**	20,859	**61,203**	55,894
Production, distribution and transportation		**3,162**	3,034	**8,997**	8,384
Net production revenue		**19,109**	17,825	**52,206**	47,510
Operating expenses					
General and administrative		**2,419**	3,778	**8,674**	10,465
Stock based compensation (recovery) expense	14	**(56)**	(82)	**(477)**	247
Depletion	10	**4,186**	3,931	**11,133**	10,752
(Reversal of) loss allowance for receivables	9	**(1,944)**	3,770	**(3,762)**	(12,136)
Finance income	8	**(34)**	(185)	**(108)**	(1,025)
Finance expense	8	**1,150**	1,203	**7,056**	6,691
Income before tax		**13,388**	5,410	**29,690**	32,516
Income tax expense – current		**2,514**	1,589	**6,456**	6,568
Income tax expense – deferred		**1,216**	859	**3,791**	1,060
Additional Profits Tax		**1,446**	937	**3,395**	3,465
Net income		**8,212**	2,025	**16,048**	21,423
Net income attributable to non-controlling interest	20	**599**	538	**1,226**	1,037
Net income attributable to shareholders		**7,613**	1,487	**14,822**	20,386
Foreign currency translation (loss) gain from foreign operations		**(23)**	11	**(9)**	(11)
Comprehensive income		**7,590**	1,498	**14,813**	20,375
Net income attributable to shareholders per share ($)					
Basic and diluted	15	**0.38**	0.06	**0.73**	0.72

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Financial Position (Unaudited)

$'000	Note	As at September 30, 2021	As at December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		**71,433**	104,190
Trade and other receivables	9	**28,465**	21,880
Prepayments		**461**	898
		100,359	126,968
Non-current assets			
Long-term receivables	12	**2,215**	2,214
Investments	20	**3,967**	3,967
Capital assets	10	**112,195**	109,463
		118,377	115,644
Total assets		**218,736**	242,612
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	11	**40,299**	39,287
Tax payable		**1,905**	1,956
Current portion of long-term loan	13	**5,000**	–
Current portion of Additional Profits Tax		**6,606**	11,489
		53,810	52,732
Non-current liabilities			
Deferred income taxes		**22,300**	18,509
Lease liabilities	10	**269**	423
Long-term loan	13	**49,563**	54,246
Additional Profits Tax		**21,562**	24,830
		93,694	98,008
Total liabilities		**147,504**	150,740
SHAREHOLDERS' EQUITY			
Capital stock	14	**47,528**	63,243
Accumulated other comprehensive loss		**(180)**	(171)
Accumulated income		**21,135**	27,277
Non-controlling interest	20	**2,749**	1,523
		71,232	91,872
Total equity and liabilities		**218,736**	242,612

See accompanying notes to the condensed consolidated interim financial statements.

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

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

$'000	Note	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
OPERATING ACTIVITIES					
Net income		**8,212**	2,025	**16,048**	21,423
Adjustment for:					
Depletion and depreciation	10	**4,267**	4,068	**11,382**	11,159
Loss on disposal of lease		**–**	293	**–**	293
Indirect tax (recovery) expense	8	**(874)**	201	**1,614**	1,670
Stock based compensation (recovery) expense	14	**(56)**	(82)	**(477)**	247
Deferred income taxes		**1,216**	859	**3,791**	1,060
Additional Profits Tax		**1,446**	937	**3,395**	3,465
Reversal of loss allowance for receivables	9	**(1,944)**	–	**(1,944)**	–
Unrealized loss (gain) on foreign exchange		**100**	(224)	**297**	(385)
Interest expense	8	**1,977**	1,361	**5,088**	5,517
Change in non-cash working capital	19	**(2,212)**	(1,982)	**(17,605)**	(22,650)
Net cash flows from operating activities		**12,132**	7,456	**21,589**	21,799
INVESTING ACTIVITIES					
Capital expenditures	10	**(836)**	(9,614)	**(11,356)**	(10,913)
Proceeds from sale of investments in bonds		**–**	4,963	**–**	44,756
Net cash (used in) from investing activities		**(836)**	(4,651)	**(11,356)**	33,843
FINANCING ACTIVITIES					
Lease payments		**(22)**	(396)	**(181)**	(621)
Substantial issuer bid	14	**(14)**	–	**(31,886)**	(38,170)
Normal course issuer bid	14	**–**	(302)	**–**	(2,149)
Interest paid	8	**(1,396)**	(3,738)	**(5,786)**	(6,632)
Dividends paid to shareholders	14	**(1,589)**	(1,158)	**(4,827)**	(3,869)
Net cash used in financing activities		**(3,021)**	(5,594)	**(42,680)**	(51,441)
Increase (decrease) in cash		**8,275**	(2,789)	**(32,447)**	4,201
Cash and cash equivalents at the beginning of the period		**63,269**	101,113	**104,190**	93,899
Effect of change in foreign exchange on cash for the period		**(111)**	210	**(310)**	434
Cash and cash equivalents at the end of the period		**71,433**	98,534	**71,433**	98,534

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes In Shareholders' Equity (Unaudited)

$'000	Capital stock	Contributed surplus	Accumulated other comprehensive loss	Accumulated income	Non-controlling interest	Total
Note	*14*			*14*	*20*	
Balance as at December 31, 2020	63,243	–	(171)	27,277	1,523	91,872
Share repurchase	(15,715)	–	–	(15,974)	–	(31,689)
Share repurchase costs	–	–	–	(197)	–	(197)
Dividends declared	–	–	–	(4,793)	–	(4,793)
Foreign currency translation adjustment on foreign operations	–	–	(9)	–	–	(9)
Net income	–	–	–	14,822	1,226	16,048
Balance as at September 30, 2021	**47,528**	**–**	**(180)**	**21,135**	**2,749**	**71,232**

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

See accompanying notes to the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

General Information

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

The condensed consolidated interim financial statements of the Company as at September 30, 2021 and for the three and nine months ended September 30, 2021 comprise the accounts of the Company and its subsidiaries (collectively, the "Company") and were authorized for issue in accordance with a resolution of the directors on November 17, 2021. The Company is controlled by Shaymar Limited who is the registered holder of 24.6% of the equity and controls 71.4% of the total votes of the Company. The shares are held in a trust that is independently managed for the beneficiaries.

1. Nature of Operations

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

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

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

The Tanzania Electric Supply Company Limited ("TANESCO") is a parastatal organization which is wholly-owned by the Government of Tanzania, with oversight by the Ministry of Energy ("MoE"). TANESCO is responsible for the majority of electricity generation, transmission and distribution throughout Tanzania. The Company and TPDC as joint sellers currently supply gas directly to TANESCO by way of a Portfolio Gas Supply Agreement ("PGSA") and indirectly through the supply of Protected Gas and Additional Gas to Songas. The Company also delivers gas to TPDC through a long-term gas sales agreement ("LTGSA") to the TPDC operated National Natural Gas Infrastructure ("NNGI") on Songo Songo Island where the natural gas is processed before being transported to Dar es Salaam for power and industrial use.

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

2. Basis of Preparation

Statement of Compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", and do not include all information required for full annual financials and should be read in conjunction with the audited financial statements for the year ended December 31, 2020.

Basis of Measurement

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

COVID-19

There has been no significant change in the Company's business during the nine months ended September 30, 2021 as a result of the ongoing coronavirus pandemic ("COVID-19"). The Tanzanian government has introduced new restrictions and started a vaccination program in an effort to control the spread of COVID-19 however given the steps already taken by the Company, no significant impact on our operations or business results is expected as a result of the new restrictions. The current situation is dynamic and the ultimate duration and magnitude of the impact on the Tanzanian economy and the financial effect on the Company are not known at this time.

3. Summary of Significant Accounting Policies

The Company's accounting policies are set forth in Note 3 to the audited consolidated financial statements for the year ended December 31, 2020. There have been no changes in accounting policies for the nine month period ended September 30, 2021 and the policies have been applied consistently to all periods presented in the condensed consolidated interim financial statements.

4. Use of Estimates and Judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ materially from these estimates. In preparing these interim consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2020.

See Note 4 of the audited consolidated financial statements for the year ended December 31, 2020 for a full discussion.

5. Risk Management

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

A. Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from TANESCO, Songas and TPDC. The carrying amount of accounts receivable and the long-term receivable represents the maximum credit exposure. As at September 30, 2021 and December 31, 2020, provisions exist against all of the long-term TANESCO receivable, gas plant operations and capital expenditure receivables from Songas, and a receivable of $0.5 million from one industrial customer. No write-off of any receivables occurred during the nine month period ended September 30, 2021 (see Note 9).

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

B. Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its liabilities. Cash forecasts identifying liquidity requirements of the Company are produced on a regular basis. These are reviewed to ensure sufficient funds exist to finance the Company's current operational and investment cash flow requirements. At September 30, 2021 the Company has working capital of $46.5 million which is net of $53.8 million of financial liabilities with regards to trade and other payables of which $15.5 million is due within one to three months, $6.6 million is due within three to six months, and $31.7 million is due within six to twelve months (see Note 11).

As at September 30, 2021 approximately 42% of the current liabilities relate to TPDC (see Note 11). The amounts due to TPDC represent its share of Profit Gas. In accordance with the terms of the PSA, TPDC is entitled to the payment of its share of Profit Gas on a quarterly basis proportional to the cash receipts during the quarter. A substantial proportion of the TPDC liability is associated with the long-term TANESCO arrears and payments to TPDC are made when cash is received for the arrears.

COVID-19 has reduced travel throughout the world in 2021 and 2020. Tourism is a major source of revenue and foreign currency for Tanzania and the decrease in travel has resulted in a reduction of foreign currency flowing into the country. It has been more difficult for the Company to convert Tanzanian shillings to United States dollars compared to prior years, however, as at the date of this report, this has not significantly impacted PAET's ability to meet its United States dollar obligations. There is a risk that in the future the Company may not be able to convert Tanzanian shillings to United States dollars as and when required.

6. Segment Information

The Company has one reportable industry segment which is international exploration, development and production of petroleum and natural gas. During the nine month periods ended September 30, 2021 and 2020 the Company's producing and exploration assets were entirely located in Tanzania. In 2019 the Company relinquished exploration and appraisal interests in Italy and the companies used for the Italian operations were wound up in Q2 2020.

7. Revenue

	Three months ended September 30		Nine months ended September 30	
$/000	2021	2020	2021	2020
Industrial sector	**9,098**	9,145	**27,713**	25,896
Power sector	**17,295**	15,143	**42,796**	40,920
Gross field revenue	**26,393**	24,288	**70,509**	66,816
TPDC share of revenue	**(6,933)**	(4,559)	**(16,275)**	(16,863)
Company operating revenue	**19,460**	19,729	**54,234**	49,953
Current income tax adjustment	**2,811**	1,130	**6,969**	5,941
	22,271	20,859	**61,203**	55,894

The Company recognized 100% of amounts invoiced for deliveries to TANESCO as revenue during the first nine months of 2020 and 2021. During Q3 2021, the Company invoiced TANESCO $7.5 million (Q3 2020: $5.9 million) for gas deliveries and received $5.2 million in payments (Q3 2020: $7.5 million). The Company: (i) recognized all amounts invoiced for gas deliveries in Q3 2021 as revenue; and (ii) recognized $ nil during the quarter (Q3 2020: $1.6 million) as a reversal of loss allowance relating to the amounts collected during the quarter that were applied towards the long-term TANESCO receivables previously allowed for (see Note 9). Subsequent to September 30, 2021 the Company invoiced TANESCO $1.8 million for October 2021 gas deliveries and TANESCO has paid the Company $3.0 million.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) continued

8. Finance Income and Expense

Finance Income

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
Interest income	**34**	185	**108**	720
Investment income	**–**	–	**–**	305
	34	185	**108**	1,025

Finance Expense

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
Base interest expense	**1,526**	1,469	**4,506**	4,363
Participation interest expense	**441**	(132)	**548**	1,082
Lease interest expense	**10**	24	**34**	72
Interest expense	**1,977**	1,361	**5,088**	5,517
Net foreign exchange loss (gain)	**47**	(359)	**354**	(496)
Indirect tax (recovery) expense	**(874)**	201	**1,614**	1,670
	1,150	1,203	**7,056**	6,691

Base interest expense and participation interest expense relate to the long-term loan ("Loan") with the International Finance Corporation ("IFC"). Base interest on the Loan is payable quarterly at 10% per annum on a 'pay-if-you-can-basis' using a formula to calculate the net cash available for such payments as at any given interest payment date. The base interest expense is payable quarterly in arrears. The participation interest expense is paid annually in arrears and equates to 6.4% of PAET's net cash flows from operating activities net of net cash flows used in investing activities for the year. Such participation interest will continue until October 15, 2026 regardless of whether the Loan is repaid prior to its contractual maturity date (see Note 13).

The indirect tax is for value added tax ("VAT") associated with invoices to TANESCO under the take or pay provisions within the PGSA and for interest on late payments. Indirect tax for Q3 2021 includes a credit of $1.1 million relating to a credit note issued to TANESCO against an invoice raised under the take or pay provisions of the PGSA.

9. Current Trade and Other Receivables

	As at	
$'000	September 30, 2021	December 31, 2020
Trade receivables		
Songas	**2,196**	2,053
TPDC	**3,888**	7,417
TANESCO	**2,275**	–
Industrial customers	**9,606**	9,362
Loss allowance	**(452)**	(452)
	17,513	18,380
Other receivables		
Songas gas plant operations	**4,728**	4,571
Songas well workover program	**1,284**	–
Other	**11,002**	6,935
Loss allowance	**(6,062)**	(8,006)
	10,952	3,500
	28,465	21,880

9. Current Trade and Other Receivables continued

Songas

As at September 30, 2021 Songas owed the Company $8.2 million (December 31, 2020: $6.6 million), while the Company owed Songas $1.9 million (December 31, 2020: $2.0 million). The amounts due to the Company are mainly for gas sales of $2.2 million (December 31, 2020: $2.1 million) and for the operation of the gas plant of $4.7 million (December 31, 2020: $4.6 million) against which the Company has made a loss allowance of $0.7 million (December 31, 2020: $2.7 million). The amounts due to Songas primarily relate to pipeline tariff charges of $1.6 million (December 31, 2020: $1.7 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis.

TPDC

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

(Reversal of) loss allowance for receivables

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
Reversal of loss allowance	**(1,944)**	(1,567)	**(3,762)**	(17,473)
Loss allowance	**–**	5,337	**–**	5,337
	(1,944)	3,770	**(3,762)**	(12,136)

In Q3 2021, the reversal of loss allowance follows the agreement to settle Songas operatorship arrears of $1.9 million (Q3 2020: $1.6 million from TANESCO). For the nine months ended September 30, 2021, the reversal of loss allowance includes the agreement to settle Songas arrears of $1.9 million, the collection of TANESCO arrears of $1.1 million and collection of $0.8 million of indirect taxes related to the receipt of funds for the TANESCO 2016 take or pay invoice that had been previously provided for. (nine months ended September 30, 2020: $1.1 million and $16.4 million from Songas and TANESCO, respectively). Songas operatorship arrears of $1.9 million were collected subsequent to September 30, 2021.

The loss allowance for 2020 is for a receivable from the Tanzanian Revenue Authority ("TRA") who issued an Agency Notice for $5.3 million obligating PAET's commercial bank in Tanzania to release funds in favour of the TRA. The tax dispute related to the Agency Notice is ongoing and based on the opinion of the Company's legal advisors there is better than a 50% chance of the dispute being resolved in favour of the Company (see Note 18). Subsequent to September 30, 2021, CAT ruled in favour of the TRA on the appeal. Currently the Company is exploring its options going forward on this matter. The Company recorded the $5.3 million as other receivables and fully allowed for the amount in dispute as the timing and likelihood for collection is uncertain.

10. Capital Assets

$'000	Natural gas interests	Office and other	Right-of-use	Total
Costs				
As at December 31, 2020	241,280	2,894	1,084	245,258
Additions	14,102	12	–	14,114
As at September 30, 2021	**255,382**	**2,906**	**1,084**	**259,372**
Accumulated depletion and depreciation				
As at December 31, 2020	132,588	2,864	343	135,795
Additions	11,133	31	218	11,382
As at September 30, 2021	**143,721**	**2,895**	**561**	**147,177**
Net book values				
As at September 30, 2021	**111,661**	**11**	**523**	**112,195**

In determining the depletion charge the Company takes into account an estimate of future development costs, the capital expenditure required to ensure the Company can produce the required gas volumes to meet its contractual obligations for the remaining life of the licence. As at September 30, 2021 the estimated future development costs required to bring the total proved reserves to production were $20.1 million (December 31, 2020 $34.2 million). The decrease is a result of expenditures during the nine months ended September 30, 2021. During the nine months ended September 30, 2021 the Company recorded depreciation of $0.2 million (nine months ended September 30, 2020: $0.4 million) in general and administrative expenses.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) continued

10. Capital Assets continued

Right-of-use assets

$'000	
As at December 31, 2020	741
Depreciation	(218)
As at September 30, 2021	**523**

Lease liabilities

$'000	
As at December 31, 2020	684
Lease interest expense	34
Lease payments	(181)
As at September 30, 2021	**537**

Right-of-use assets are presented as part of capital assets on the Company's balance sheet. Of the total lease liability of $0.5 million, $0.2 million is current and is presented in trade and other payables.

11. Trade and Other Payables

	As at	
$'000	September 30, 2021	December 31, 2020
Songas	**1,933**	2,062
Other trade payables	**2,362**	2,573
Trade payables	**4,295**	4,635
TPDC Profit Gas entitlement, net	**22,486**	25,570
Deferred income – take or pay contracts[1]	**4,228**	–
Accrued liabilities	**9,290**	9,082
	40,299	39,287

[1] In April 2021 TANESCO paid a take or pay invoice of $5.0 million relating to the 2015-2016 contract year. Under the terms of the contract, TANESCO had until June 30, 2021 to utilize this amount in settlement of charges for gas delivered in excess of agreed volumes. In May 2021 the Company reached agreement with TANESCO to extend by 12 months the period in which they could utilize this payment. The deferred income will be released as revenue either: (i) as gas is taken; or (ii) in Q2 2022, should TANESCO be unable to take sufficient gas volumes to recover the take or pay amount.

TPDC share of Profit Gas

	As at	
$'000	September 30, 2021	December 31, 2020
TPDC share of Profit Gas	**27,809**	30,405
Less "Adjustment Factor"	**(5,323)**	(4,835)
TPDC Profit Gas entitlement, net	**22,486**	25,570

Under the PSA revenue sharing mechanism, the Company adjusts TPDC's Profit Gas share by the "Adjustment Factor". The Adjustment Factor is equal to the amount necessary to fully pay and discharge the PAET liability for taxes on income derived from petroleum operations. A significant percentage of the settlement of the $22.5 million liability to TPDC is dependent on receipt of payment from TANESCO for long-term arrears that have been fully allowed for.

12. Long-term Receivables

$'000	As at September 30, 2021	As at December 31, 2020
Amounts invoiced to TANESCO	**118,045**	111,234
Trade receivables – TANESCO	**(2,275)**	–
Unrecognized amounts not meeting revenue recognition criteria[1]	**(89,278)**	(83,685)
Loss allowance	**(26,492)**	(27,549)
Net TANESCO receivable	**–**	–
VAT – Songas workovers	**2,205**	2,205
Lease deposit	**10**	9
	2,215	2,214

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

The Company recognized 100% of amounts invoiced for deliveries to TANESCO as revenue during the first nine months of 2020 and 2021, however, during Q3 2021 the Company invoiced TANESCO $7.5 million (Q3 2020: $5.9 million) for gas deliveries and received $5.2 million in payments (Q3 2020: $7.5 million). In Q3 2021 the Company issued a credit note to TANESCO for $7.1 million (Q3 2020: $ nil) under the take or pay provision within the PGSA for the 2020 – 2021 contract year; this credit note has not been recognized as it does not meet revenue recognition criteria with respect to assurance of collectability.

In 2017, based on agreement with TPDC, $12.3 million relating to the Songas share of workover costs of the wells SS-5 and SS-9 was transferred to the cost pool to recover the costs via the PSA cost recovery mechanism. This resulted in $2.2 million relating to VAT on the workovers that had already been paid being reclassified as a long-term receivable. The Company continues to take action to collect the workover costs through the mechanisms provided in the agreements with Songas.

13. Long-term Loan

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

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

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

$'000	As at September 30, 2021	As at December 31, 2020
Loan principal	**55,240**	55,240
Financing costs	**(677)**	(994)
Current portion of long-term loan	**(5,000)**	–
	49,563	54,246

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) continued

14. Capital Stock

Authorised

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

The Class A and Class B Shares rank pari passu in respect of dividends and repayment of capital in the event of winding-up. Class A Shares carry twenty (20) votes per share and Class B Shares carry one (1) vote per share. The Class A Shares are convertible at the option of the holder at any time into Class B Shares on a one-for-one basis. The Class B Shares are convertible into Class A Shares on a one-for-one basis in the event that a take-over bid is made to purchase Class A Shares which must, by reason of a stock exchange or legal requirements, be made to all or substantially all of the holders of Class A Shares and which is not concurrently made to holders of Class B Shares.

Changes in the Capital Stock

	As at					
	September 30, 2021			December 31, 2020		
Number of shares	Authorised (000)	Issued (000)	Amount ($'000)	Authorised (000)	Issued (000)	Amount ($'000)
Class A Shares	**50,000**	**1,750**	**983**	50,000	1,750	983
Class B Shares	**100,000**	**18,231**	**46,545**	100,000	24,388	62,260
First preference shares	**100,000**	**–**	**–**	100,000	–	–
	250,000	**19,981**	**47,528**	250,000	26,138	63,243

During Q1 2021 the Company repurchased and cancelled 6,153,846 Class B Shares at a weighted average price of CDN$6.50 per Class B Share under a substantial issuer bid. This resulted in an aggregate purchase of CDN$40.0 million of Class B Shares representing 25.2% of the Company's issued and outstanding Class B Shares and 23.5% of the total number of the Company's issued and outstanding shares. Total cash payments of $31.9 million were applied to the capital stock and accumulated income accounts. All issued capital stock is fully paid.

On June 21, 2021 the Company commenced a normal course issuer bid ("NCIB") to purchase Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. To date, 9,400 Class B Shares have been purchased by the Company pursuant to the NCIB at an average price per Class B Share of CDN$5.31.

Changes in Stock Appreciation Rights ("SARs")

$'000	SARs (000)	Exercise price (CDN$)
Outstanding as at December 31, 2020	1,242	3.87 to 6.65
Exercised	(413)	5.00
Forfeited	(83)	5.00
Outstanding as at September 30, 2021	**746**	**3.87 to 6.65**

The number outstanding, the weighted average remaining life, the number exercisable and the weighted average exercise prices of SARs at September 30, 2021 were as follows:

Exercise price (CDN$)	Number outstanding (000)	Weighted average remaining contractual life (years)	Number exercisable (000)	Weighted average exercise price (CDN$)
3.87	60	1.25	30	3.87
5.00 to 6.65	686	1.29	227	5.19
3.87 to 6.65	**746**	**1.29**	**257**	**5.08**

14. Capital Stock continued

Changes in Restrictive Stock Units ("RSUs")

$'000	RSUs (000)	Exercise price (CDN$)
Outstanding as at December 31, 2020	133	0.01
Exercised	(48)	0.01
Forfeited	(9)	0.01
Outstanding as at September 30, 2021	**76**	**0.01**

The number outstanding, the number exercisable and the weighted average remaining life of RSUs at September 30, 2021 were as follows:

Exercise price (CDN$)	Number outstanding (000)	Number exercisable (000)	Weighted average remaining contractual life (years)
0.01	**76**	**24**	**1.33**

As SARs and RSUs are settled in cash, they are re-valued at each reporting date using the Black-Scholes option pricing model with the resulting liability being recognized in trade and other payables. In the valuation of SARs and RSUs as the reporting date, the following assumptions have been made: a risk-free rate of interest of 1.0%, stock volatility of 31.0% to 37.0%, 5% forfeiture and a closing price of CDN$5.40 per Class B share. The valuation of the SARs and RSUs awards is increased to reflect the amount of dividends paid between the award date to the time of exercise.

	As at	
$'000	September 30, 2021	December 31, 2020
SARs	**850**	1,683
RSUs	**302**	496
	1,152	2,179

Dividend Summary

Declaration date	Record date	Payment date	Amount per share (CDN$)
September 9, 2021	September 29, 2021	October 15, 2021	0.10
June 4, 2021	June 30, 2021	July 15, 2021	0.10
February 23, 2021	March 31, 2021	April 15, 2021	0.10
November 19, 2020	December 31, 2020	January 15, 2021	0.08
September 17, 2020	September 30, 2020	October 15, 2020	0.08
June 22, 2020	June 30, 2020	July 15, 2020	0.06
February 25, 2020	March 31, 2020	April 30, 2020	0.06

15. Earnings Per Share

	Three months ended September 30		Nine months ended September 30	
(000)	2021	2020	2021	2020
Outstanding shares				
Weighted average number of Class A and Class B Shares, basic	**19,984**	26,138	**20,664**	28,381
Weighted average number of Class A and Class B Shares, diluted	**19,984**	26,138	**20,435**	28,381

The calculation of earnings per share is based on a net income attributable to shareholders for the quarter of $7.6 million (Q3 2020: $1.5 million) and a weighted average number of Class A and Class B shares outstanding during the quarter ended September 30, 2020 of 19,983,631 (Q3 2020: 26,137,955). The calculation of earnings per share for the nine months ended September 30, 2021 is based on a net income of $14.8 million (nine months ended September 30, 2020: $20.4 million) and a weighted average number of Class A and Class B shares outstanding for the nine months ended September 30, 2021 of 20,434,779 (nine months ended September 30, 2020: 28,381,477).

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) continued

16. Related Party Transactions

The Chair of the Company's Board of Directors is counsel to Burnet, Duckworth & Palmer LLP, a law firm that provides legal advice to the Company and its subsidiaries. Fees for services provided by this firm totalled $0.1 million during the quarter ended September 30, 2021 (Q3 2020: $0.1 million) and $0.3 million for the nine months ended September 30, 2021 (nine months ended September 30, 2020: $0.8 million).

As at September 30, 2021 the Company had a total of $0.1 million (December 31, 2020: $0.1 million) recorded in trade and other payables in relation to related parties.

17. Contractual Obligations and Committed Capital Investments

Protected Gas

Under the terms of the Gas Agreement for the Songo Songo project ("Gas Agreement"), in the event that there is a shortfall/insufficiency in Protected Gas as a consequence of the sale of Additional Gas, the Company is liable to pay the difference between the price of Protected Gas ($0.55/MMbtu escalated) and the price of an alternative feedstock multiplied by the volumes of Protected Gas up to a maximum of the volume of Additional Gas sold which was 251 Bcf as at September 30, 2021 (December 31, 2020: 235 Bcf). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the term of the Protected Gas delivery obligation to July 2024.

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

Capital Commitments

Tanzania

At the date of this report, the Company's significant outstanding contractual commitments are in relation to the compression contract, originally priced at $38.0 million which has increased through variations to $41.7 million and the upcoming workover program with an estimated gross cost of $21.4 million. To date, $39.2 million of the compression contract has been paid, the remaining forecasted capital expenditures under this contract are $2.5 million in 2022. The total amount for the workover contract is forecasted to be paid by the end of Q2 2022.

18. Contingencies

Upstream and Downstream Activities

The Petroleum Act, 2015 (the "Petroleum Act") provides TPDC with exclusive rights over the distribution of gas in Tanzania. The Petroleum Act has grandfathering provisions upholding the rights of the Company to develop and market natural gas produced under the PSA as it was signed prior to the Petroleum Act coming into effect in 2015.

On October 7, 2016 the Government of Tanzania issued the Petroleum (Natural Gas Pricing) Regulation made under Sections 165 and 258 (I) of the Petroleum Act. Article 260 (3) of the Petroleum Act preserves the Company's pre-existing right with TPDC to market and sell Additional Gas together or independently on terms and conditions (including prices) negotiated with third party Natural Gas customers. To date there has been no impact on the Company as a result of the Natural Gas Pricing Regulation, however, any future impact cannot be determined at this time.

Cost Recovery

TPDC conducted an audit of historical costs (the "Cost Pool") and in 2011 disputed approximately $34.0 million of costs that had been recovered from the Cost Pool from 2002 through to 2009. In 2014 a substantial portion of the disputed costs were agreed to be cost recoverable by TPDC. Under the dispute mechanism outlined in the PSA, parties are to agree the appointment of an independent specialist to assist the parties in reaching agreement on costs that are still subject to dispute. In 2014, prior to appointing an independent specialist, TPDC suspended the process. From 2010 to 2015 TPDC rejected a further $18.0 million of costs. In 2016 the Tanzanian Petroleum Upstream Regulatory Authority ("PURA") assumed the role of auditing the PSA cost pool from TPDC and for 2016 to 2018 have rejected all costs pertaining to downstream development amounting to $9.6 million and a further $4.4 million of other costs. To date there remains a total of $56.2 million of costs that have been queried or rejected by TPDC or PURA through the cost pool audit process.

During 2019 discussions on the disputed amounts from 2002 through to 2009 briefly resumed with TPDC. At the time of writing this report no independent specialist has been appointed and neither TPDC nor PURA have issued a formal dispute regarding cost recovery. If any matter is not resolved to the Company's satisfaction, the Company intends to proceed to arbitration via the International Centre for Settlement of Investment Disputes pursuant to the terms of the PSA. The Company's view is that all costs have been correctly included in the Cost Pool however should any of the costs be rejected as not being cost recoverable, the Company would be required to retroactively adjust its share of revenue for the period under dispute.

18. Contingencies continued

Tax

Amounts in $' millions					As at September 30, 2021	As at December 31, 2020
Area	Period	Reason for dispute	Principal	Interest	Total	Total
Pay-As-You-Earn ("PAYE") tax	2008-16	PAYE tax on grossed-up amounts in staff salaries which are contractually stated as net.	1.2	0.5	**1.7**	1.6
Withholding tax ("WHT")	2005-16	WHT on services performed outside of Tanzania by non-resident persons, on deemed dividends, loan interest and other services.	5.7	3.3	**9.0**	8.7
Income Tax	2008-16	Deductibility of capital expenditures and expenses (2009, 2012, 2015 and 2016), additional income tax (2008, 2010, 2011 and 2012), tax on repatriated income (2012), deemed branch dividends (2015 and 2016), foreign exchange rate application (2013 and 2015) and underestimation of tax due (2014).	35.1	17.9	**53.0**	52.1
VAT	2008-18	Output VAT on imported services and SSI Operatorship services (2008-16), interest on VAT decreasing adjustments and input VAT on services (2017 and 2018).	2.8	4.1	**6.9**	6.8
			44.8	25.8	**70.6**	69.2

During Q2 2021 the Company paid the TRA $1.8 million as a deposit against the disputed taxes including PAYE tax, WHT, income tax and VAT for the years 2012-16, an amount agreed upon in order for TRA to admit the outstanding tax objections. In Q3 2021, the Court of Appeal of Tanzania ("CAT") delivered its judgement on an appeal instituted by the Company on appealability of one-third deposit required to admit objections for the year of income of 2012. CAT decided that the matters are not tax decisions and are therefore not appealable. Aggrieved by the decision, management intends to file an application for the review of the decision at the same court. The decision, however, will not affect the position on admission of objections for the years 2012-16.

During 2020 the TRA conducted audits of 2017 and 2018 and issued two assessments with regards to VAT ($1.2 million) and WHT ($0.01 million). The Company has conceded to the TRA with respect to the WHT assessment ($0.01 million) and a portion of the VAT assessment ($0.06 million). However, the Company has objected to the incorrect imposition of interest on VAT decreasing adjustments on TANESCO payments ($1.1 million) and disallowing input VAT claimed in certain services ($0.1 million). No final assessments have been issued to date with respect to corporation tax, excise duty or payroll tax for 2017 and no preliminary assessment has yet been received for 2018. Management, with advice from its legal counsel, 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 regards to these matters and that the maximum potential exposure is $65.0 million (December 31, 2020: $63.6 million). The difference between the total disputed amounts and the maximum potential exposure results from the $5.3 million and $0.3 million PAET's commercial bank in Tanzania transferred to the TRA with regards to disputed 2008-10 output VAT and disputed 2008-10 PAYE tax, respectively. The Company has filed an appeal for the action to be reversed as the bank made the transfer under instructions from the TRA. Subsequent to September 30, 2021, CAT ruled in favour of the TRA on the appeal. Currently the Company is exploring its options going forward on this matter. The amount is recorded in trade and other receivables and has been fully provided for pending the result of the appeal.

The process of appealing assessments issued by the TRA start by initially filing an appeal with the TRA. If this is not successful, claims can be taken to higher authorities starting with the Tanzania Revenue Appeals Board ("TRAB"), followed by an appeal to the Tax Revenue Appeals Tribunal ("TRAT") and finally to the CAT. See Note 21 of the audited consolidated financial statements for the year ended December 31, 2020 for a full discussion.

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

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) continued

19. Change in Non-Cash Operating Working Capital

	Three months ended September 30		Nine months ended September 30	
(000)	2021	2020	2021	2020
(Increase) decrease in trade and other receivables	**(7,265)**	1,214	**(8,201)**	(1,326)
Decrease in prepayments	**202**	2,751	**437**	2,024
Increase (decrease) in trade and other payables	**3,864**	(6,075)	**1,757**	(12,874)
Decrease in APT	**–**	–	**(11,546)**	(11,938)
Increase (decrease) in tax payable	**988**	90	**(51)**	1,428
(Decrease) increase in long-term receivable	**(1)**	38	**(1)**	36
	(2,212)	(1,982)	**(17,605)**	(22,650)

20. Non-Controlling Interest

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

Swala is obligated to redeem 20% of the Preference Shares for cash annually starting from December 31, 2021 until all shares are redeemed. If at any time Swala does not redeem in cash the required number of Preference Shares, Swala is obligated to redeem the Preference Shares by transferring and returning the Class A common shares of PAEM sold to Swala. The aggregate value of these Class A common shares will equal the amount of any outstanding redemption.

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

	As at	
$'000	September 30, 2021	December 31, 2020
Balance, beginning of period	**1,523**	163
Net income attributable to non-controlling interest	**1,226**	1,360
Balance, end of period	**2,749**	1,523

Corporate Information

Board of Directors

Jay Lyons
Executive Director and
Chief Executive Officer
Vancouver, Canada

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

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

Linda Beal
Non-Executive Director
London, UK

Advisor to the Board and PAET

Lloyd Herrick
Director, PAET
Calgary, Canada

Officers

Jay Lyons
Chief Executive Officer
Vancouver, Canada

Blaine Karst
Chief Financial Officer
Calgary, Canada

Lisa Mitchell
Chief Financial Officer
(from November 1, 2021)
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