Q1 2022 Interim Financial Statements and Notes

NOTIFICATION OF CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the three-month period ended March 31, 2022.

Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited)

		Three Months ended March 31	
$'000	Note	2022	2021
Revenue	6, 7	**27,452**	18,631
Production, distribution and transportation		**3,534**	3,212
Net production revenue		**23,918**	15,419
Operating expenses			
General and administrative		**2,993**	2,846
Stock based compensation recovery	14	**(16)**	(456)
Depletion	10	**5,582**	3,728
Reversal of loss allowance for receivables	9	**-**	(789)
Finance income	8	**(61)**	(42)
Finance expense	8	**1,759**	1,839
Income before tax		**13,661**	8,293
Income tax expense – current		**2,127**	2,533
Income tax recovery – deferred		**2,479**	(22)
Additional Profits Tax		**952**	1,487
Net income		**8,103**	4,295
Net income attributable to non-controlling interest	20	**712**	332
Net income attributable to shareholders		**7,391**	3,963
Foreign currency translation (loss) gain from foreign operations		**(23)**	9
Comprehensive income		**7,368**	3,972
Net income attributable to shareholders per share *($)*			
Basic and diluted	15	**0.37**	0.19

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Financial Position (Unaudited)

		As at	
$'000	Note	March 31, 2022	December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents		**66,993**	72,985
Trade and other receivables	9	**36,256**	30,731
Prepayments		**1,022**	1,133
		104,271	104,849
Non-current assets			
Long-term receivables	12	**2,215**	2,215
Investments	20	**3,240**	3,240
Capital assets	10	**128,576**	119,967
		134,031	125,422
Total assets		**238,302**	230,271
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other liabilities	11	**52,768**	46,776
Tax payable		**3,462**	2,836
Current portion of long-term loan	13	**5,000**	5,000
Current portion of Additional Profits Tax		**1,905**	8,461
		63,135	63,073
Non-current liabilities			
Deferred income taxes		**27,522**	25,043
Lease liabilities	10	**145**	176
Long-term loan	13	**49,678**	49,603
Additional Profits Tax		**19,927**	20,922
		97,272	95,744
Total liabilities		**160,407**	158,817
SHAREHOLDERS' EQUITY			
Capital stock	14	**47,433**	47,454
Accumulated other comprehensive loss		**(200)**	(177)
Accumulated income		**26,834**	21,061
Non-controlling interest	20	**3,828**	3,116
		77,895	71,454
Total equity and liabilities		**238,302**	230,271

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 March 31 2022	2021
OPERATING ACTIVITIES			
Net Income		**8,103**	4,295
Adjustment for:			
Depletion and depreciation	10	**5,654**	3,812
Indirect tax	8	**220**	199
Stock based compensation recovery	14	**(16)**	(456)
Deferred income taxes expense (recovery)		**2,479**	(22)
Additional Profits Tax		**952**	1,487
Unrealized (gain) loss on foreign exchange		**(256)**	61
Interest expense	8	**1,464**	1,409
Change in non-cash working capital	19	**(14,523)**	(11,579)
Net cash flows from (used in) operating activities		**4,077**	(794)
INVESTING ACTIVITIES			
Capital expenditures	10	**(7,176)**	(295)
Net cash used in investing activities		**(7,176)**	(295)
FINANCING ACTIVITIES			
Lease payments		**(21)**	(21)
Substantial issuer bid	14	**-**	(31,872)
Normal course issuer bid	14	**(43)**	-
Interest paid	8	**(1,458)**	(1,412)
Dividends paid to shareholders	14	**(1,578)**	(1,637)
Net cash used in financing activities		**(3,100)**	(34,942)
Decrease in cash		**(6,199)**	(36,031)
Cash and cash equivalents at the beginning of the period		**72,985**	104,190
Effect of change in foreign exchange on cash for the period		**207**	(113)
Cash and cash equivalents at the end of the period		**66,993**	68,046

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, 2021	47,454	–	(177)	21,061	3,116	71,454
Share repurchase	(21)	–	–	(22)	–	(43)
Dividends declared	–	–	–	(1,596)	–	(1,596)
Foreign currency translation adjustment on foreign operations	–	–	(23)	–	–	(23)
Net income	–	–	–	7,391	712	8,103
Balance as at March 31, 2022	**47,433**	**–**	**(200)**	**26,834**	**3,828**	**77,895**

$'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	63,242	–	(171)	27,277	1,523	91,872
Share repurchase	(15,710)	–	–	(15,965)	–	(31,675)
Share repurchase costs	–	–	–	(197)	–	(197)
Dividends declared (1,590))	–	–	–	(1,590)	–	
Foreign currency translation adjustment on foreign operations	–	–	9	–	–	9
Net income	–	–	–	3,963	332	4,295
Balance as at March 31, 2021	47,533	–	(162)	13,488	1,855	62,714

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 registered offices located at Vistra Corporate Service Centre, Wickhams Cay II, Road Town, Tortola, British Virgin Islands, and VG110. The Company produces and sells natural gas to the power and industrial sectors in Tanzania.

The condensed consolidated interim financial statements of the Company as at March 31, 2022 and for the three months ended March 31, 2022 comprise the accounts of the Company and its subsidiaries (collectively, the "Company" or "Orca Energy") and were authorized for issue in accordance with a resolution of the directors on May 19, 2022. 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, 2021.

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 Q1 2022 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.

Climate change regulations

Risks related to climate change may have an impact on the Company's operations and the Company may be subject to additional disclosure requirements in the future. The International Sustainability Standards Board issued an IFRS Sustainability Disclosure Standard with the objective to develop a global framework for environmental sustainability disclosure. In addition, the Canadian Securities Administrators also issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters which sets forth additional reporting requirements for Canadian Public Companies. We continue to monitor developments on these reporting requirements and the impact they may have on the Company's financial position and results of operating activities in future periods.

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, 2021. There have been no changes in accounting policies for the three month period ended March 31, 2022 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 judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2021.

See Note 4 of the audited consolidated financial statements for the year ended December 31, 2021 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 March 31, 2022 and December 31, 2021, 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 in Q1 2022 (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 March 31, 2022 the Company has working capital of $41.1 million which is net of $63.1 million of financial liabilities with regards to trade and other payables of which $26.3 million is due within one to three months, $ nil is due within three to six months, and $36.8 million is due within six to twelve months (see Note 11).

As at March 31, 2022 approximately 33% 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 2022 and 2021. 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 Q1 2022 and 2021 the Company's producing assets were entirely located in Tanzania.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) cont.

7. Revenue

	Three Months ended March 31	
$'000	2022	2021
Industrial sector	**10,866**	9,215
Power sector	**18,945**	13,670
Gross field revenue	**29,811**	22,885
TPDC share of revenue	**(4,518)**	(7,128)
Company operating revenue	**25,293**	15,757
Current income tax adjustment	**2,159**	2,874
	27,452	18,631

The Company recognized 100% of amounts invoiced for deliveries to TANESCO as revenue during 2021 and in Q1 2022. The Company invoiced TANESCO $5.5 million for gas deliveries (Q1 2021: $6.5 million) and received $6.5 million in payments during Q1 2022 (Q1 2021: $7.3 million). Based on the consistent payments from TANESCO, the Company: (i) recognized all amounts invoiced for gas deliveries in Q1 2022 and Q1 2021 as revenue; and (ii) recognized $ nil during Q1 2022 (Q1 2021: $0.8 million) as a reversal of loss allowance relating to the amounts collected during the year that were applied towards the long-term TANESCO receivables previously allowed for (see Note 9). Subsequent to March 31, 2022 the Company has invoiced TANESCO $6.4 million for April 2022 gas deliveries and TANESCO has paid the Company $7.1 million.

8. Finance Income and Expense

Finance income

	Three Months ended March 31	
$'000	2022	2021
Interest income	**61**	42
	61	42

Finance expense

	Three Months ended March 31	
$'000	2022	2021
Base interest expense	**1,457**	1,381
Participation interest expense	**–**	15
Lease interest expense	**7**	13
Interest expense	**1,464**	1,409
Net foreign exchange loss	**75**	231
Indirect tax	**220**	199
	1,759	1,839

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 in arrears at 10% per annum on a 'pay-if-you-can-basis' using a formula to calculate the net cash available for such payments as at any given interest payment date. The participation interest expense is paid annually in arrears and equates to 6.4% of PAET's net cash flows from operating activities net of net cash flows used in investing activities for the year. 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 for interest on late payments.

9. Current Trade and Other Receivables

$'000	As at March 31, 2022	As at December 31, 2021
Trade receivables		
Songas	**1,935**	2,502
TPDC	**10,604**	5,603
TANESCO	**229**	2,042
Industrial customers	**12,340**	11,840
Loss allowance	**(452)**	(452)
	24,656	21,535
Other receivables		
Songas gas plant operations	**2,923**	2,827
Songas well workover program	**6,046**	3,447
Other	**3,356**	3,647
Loss allowance	**(725)**	(725)
	11,600	9,196
	36,256	30,731

Songas

As at March 31, 2022 Songas owed the Company $10.9 million (December 31, 2021: $8.8 million), while the Company owed Songas $1.7 million (December 31, 2021: $1.9 million). The amounts due to the Company are mainly for sales of gas of $1.9 million (December 31, 2021: $2.5 million), the well workover program of $6.1 million (December 31, 2021; $3.5 million) and for the operation of the gas plant of $2.9 million (December 31, 2021: $2.8 million) against which the Company has made a loss allowance of $0.7 million (December 31, 2021: $0.7 million). The amounts due to Songas primarily relate to pipeline tariff charges of $1.3 million (December 31, 2021: $1.5 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 can be offset against TPDC profit share.

Reversal of loss allowance for receivables

$'000	Three Months ended March 31 2022	Three Months ended March 31 2021
Reversal of loss allowance	**–**	789

The reversal of loss allowance in Q1 2021 follows collection of TANESCO arrears of $0.8 million which had been previously allowed for and represents the excess of receipts over gas sales invoiced during the quarter.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) cont.

10. Capital Assets

$'000	Natural gas interests	Office and other	Right-of-use	Total
Costs				
As at December 31, 2021	267,876	2,908	1,084	271,868
Additions	14,014	249	–	14,263
As at March 31, 2022	**281,890**	**3,157**	**1,084**	**286,131**
Accumulated depletion and depreciation				
As at December 31, 2021	148,367	2,901	633	151,901
Additions	5,582	(1)	73	5,654
As at March 31, 2022	**153,949**	**2,900**	**706**	**157,555**
Net book values				
As at March 31, 2022	**127,941**	**257**	**378**	**128,576**

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 license. As at March 31, 2022 the estimated future development costs required to bring the total proved reserves to production were $12.8 million (December 31, 2021 $26.8 million). In Q1 2022 the Company recorded depreciation of $0.2 million (Q1 2021: $0.01 million) in general and administrative expenses.

Right-of-use assets

$'000	
As at December 31, 2021	451
Depreciation	(73)
As at March 31, 2022	**378**

Lease liabilities

$'000	
As at December 31, 2021	408
Lease interest expense	7
Lease payments	(21)
As at March 31, 2022	**394**

Right-of-use assets are presented as part of capital assets on the Company's balance sheet. Of the total lease liability of $0.4 million (December 31, 2021: $0.4 million), $0.3 million (December 31, 2021: $0.2 million) is current and is presented in trade and other liabilities.

11. Trade and Other Liabilities

$'000	As at March 31, 2022	As at December 31, 2021
Songas	**1,697**	1,899
Other trade payables	**10,723**	3,179
Trade payables	**12,420**	5,078
TPDC Profit Gas entitlement, net	**20,975**	21,911
Deferred income – take or pay contracts	**4,457**	5,215
Accrued liabilities	**14,916**	14,572
	52,768	46,776

TPDC share of Profit Gas

$'000	As at March 31, 2022	As at December 31, 2021
TPDC share of Profit Gas	**27,716**	27,994
Less "Adjustment Factor"	**(6,741)**	(6,083)
TPDC share of Profit Gas entitlement	**20,975**	21,911

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 $21.0 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 March 31, 2022	As at December 31, 2021
Amounts invoiced to TANESCO	**118,823**	119,168
Trade receivables – TANESCO	**(229)**	(2,042)
Unrecognized amounts not meeting revenue recognition criteria[1]	**(92,102)**	(90,634)
Loss allowance	**(26,492)**	(26,492)
Net TANESCO receivable	**–**	–
VAT – Songas workovers	**2,205**	2,205
Lease deposit	**10**	10
	2,215	2,215

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

The Company recognized 100% of amounts invoiced for deliveries to TANESCO as revenue during 2021 and Q1 2022. During Q1 2021 the amounts received from TANESCO were in excess of the revenue recognized for gas sales to TANESCO and $0.8 million of cumulative excess cash receipts over sales invoiced were recorded, reducing the long-term arrears and allowing the reversal of the associated loss allowances.

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.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) cont.

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 $5.0 million starting October 15, 2022 and one final payment of $25.2 million due on October 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 $30.0 million. The guarantee may only be called upon by IFC at maturity in 2025 and, subject to IFC approval and receipt of all required regulatory approvals, the Company, at its discretion, may issue shares in fulfillment of all or part of the guarantee obligation in 2025. Pursuant to the sale of the non-controlling interest in 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.

	As at	
$'000	March 31, 2022	December 31, 2021
Loan principal	**55,240**	55,240
Financing costs	**(562)**	(637)
Current portion of long-term loan	**(5,000)**	(5,000)
	49,678	49,603

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					
	March 31, 2022			December 31, 2021		
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**	**18,192**	**46,450**	100,000	18,203	46,471
First preference shares	**100,000**	**–**	**–**	100,000	–	–
	250,000	**19,942**	**47,433**	250,000	19,953	47,454

During Q1 2022 the Company repurchased and cancelled 10,300 Class B Shares at a weighted average price of CDN$5.30 per Class B Share under a normal course issuer bid. All issued capital stock is fully paid.

Changes in stock appreciation rights ("SARs")

	SARs (000)	Exercise price (CDN$)
Outstanding as at December 31, 2021	746	3.87 to 6.65
Exercised	(60)	3.87
Outstanding as at March 31, 2022	**686**	**5.00 to 6.65**

14. Capital Stock cont.

The number outstanding, the weighted average remaining life, the number exercisable and the weighted average exercise prices of SARs at March 31, 2022 were as follows:

Exercise price (CDN$)	Number outstanding (000)	Weighted average remaining contractual life (years)	Number exercisable (000)	Weighted average exercise price (CDN$)
5.00 to 6.65	686	0.79	227	5.19
2.30 to 6.65	**686**	**0.79**	**227**	**5.19**

Change in Restrictive Stock Units ("RSUs")

	RSUs (000)	Exercise price (CDN$)
Outstanding as at December 31, 2021	76	0.01
Outstanding as at March 31, 2022	**76**	**0.01**

The number outstanding, the weighted average remaining life and weighted average exercise prices of RSUs at March 31, 2022 were as follows:

Exercise price (CDN$)	Number outstanding (000)	Number exercisable (000)	Weighted average remaining contractual life (years)
0.01	**76**	**24**	**0.83**

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 liabilities. In the valuation of stock appreciation rights and restricted stock units as at March 31, 2022, the following assumptions have been made: a risk free rate of interest of 1.0% (December 31, 2021: 1.0%), stock volatility of 30.0% to 32.0% (December 31, 2021: 26.6% to 37.8%), 5% forfeiture (December 31, 2021: 5%) and a closing stock price of CDN$5.18 (December 31, 2021: 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	March 31, 2022	December 31, 2021
SARs	**573**	727
RSUs	**322**	326
	895	1,053

Dividend summary

Declaration date	Record date	Payment date	Amount per share *(CDN$)*
February 24, 2022	March 31, 2022	April 15, 2022	0.10
November 9, 2021	December 31, 2021	January 15, 2022	0.10
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

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) cont.

15. Earnings Per Share

	Three Months ended March 31	
(000)	2022	2021
Outstanding shares		
Weighted average number of Class A and Class B Shares	**19,944**	21,352
Weighted average diluted number of Class A and Class B Shares	**19,944**	21,352

The calculation of earnings per share is based on a net income attributable to shareholders for the quarter of $7.4 million (Q1 2021: $4.0 million) and a weighted average number of Class A Shares and Class B Shares outstanding during the quarter ended March 31, 2022 of 19,944,363 (Q1 2021: 21,351,630).

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. During the quarter ended March 31, 2022 fees for services provided by this firm totalled $0.2 million (Q1 2021: $0.1 million).

As at March 31, 2022 the Company had a total of $0.1 million (December 31, 2021: $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 263 Bcf as at March 31, 2022 (December 31, 2021: 257 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 commitment is in relation to the workover program originally priced at $21.4 million which has increased through variations to $31.6 million. As of March 31, 2022, $19.4 million of the workover contracts has been paid, the remaining capital expenditures of $12.2 million will be paid in 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.

18. Contingencies cont.

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 with $25.4 million remaining in dispute. 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 $16.8 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 2020 have rejected all costs pertaining to downstream development amounting to $15.0 million and a further $9.5 million of other costs. To date there remains a total of $66.7 million of costs that have been queried or rejected by TPDC or PURA through the cost pool audit process.

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

Taxation

Amounts in $' millions					As at March 31, 2022	As at December 31, 2021
Area	Period	Reason for dispute	Principal	Interest	Total	Total
Pay-As-You-Earn ("PAYE") tax	2008-10	PAYE tax on grossed-up amounts in staff salaries which are contractually stated as net.	0.3	–	**0.3**	0.3
Withholding tax ("WHT")	2005-09	WHT on services performed outside of Tanzania by non-resident persons.	1.0	0.6	**1.6**	1.6
Income Tax	2008-09, 2011-17	Deductibility of capital expenditures and expenses (2012, 2015 and 2016), additional income tax (2008, 2011 and 2012), tax on repatriated income (2012 to 2016), foreign exchange rate application (2013, 2014 and 2015), underestimation of tax due (2014 and 2016) and methodology of grossing up of income taxes paid (2015 to 2017).	34.2	18.2	**52.4**	51.7
VAT	2012-18	VAT already paid (2012 to 2014), VAT on imported services (2015 and 2016), interest on VAT decreasing adjustments and input VAT on services (2017 and 2018).	0.2	1.3	**1.5**	1.4
			35.7	20.1	**55.8**	55.0

During 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 2021, the Court of Appeal of Tanzania ("CAT") delivered its judgment on an appeal instituted by the Company on the appealability of a one-third deposit required to admit objections for the 2012 year of income. The CAT decided that the matters are not tax decisions and are therefore not appealable. Aggrieved by the decision, the Company filed a notice of motion for review of the decision at the same court and is awaiting a hearing. The decision, however, will not affect the position on admission of objections for the years of 2012-16.

During 2021 the TRA issued a new assessment with regards to 2017 income tax ($6.4 million). The Company has objected TRA's incorrect methodology of grossing up income taxes already paid ($6.4 million) and the issue of imposing interest on deemed delayed payment ($0.1 million) and is awaiting a TRA response.

During Q1 2022, following the expiry of the statutory deadline for the TRA to respond to the Company's objections, the Company filed notices of intention to appeal to TRAB against the corporate income tax assessments for the years of 2012-16, tax on repatriated income for the years of 2012 and 2013, and VAT for the years of 2015-16. In Q2 2022, these matters came for hearing and, at the request from the TRA, the TRAB granted an order that these matters be withdrawn to allow the TRA to further review and issue determination letters. The matters are expected to appear for status review in May and June 2022. In addition, the Company paid the TRA $0.7 million as a deposit against disputed income tax for years of income of 2014 and 2017.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) cont.

18. Contingencies cont.

Taxation cont.

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 further provision is required. However, if the TRA reassesses the Company's tax returns for open taxation years on a similar basis, the Company may be required to make future deposits to object such assessments.

The process of appealing assessments issued by TRA start by initially filing an appeal with 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 Court of Appeal of Tanzania ("CAT"). See Note 21 of the audited consolidated financial statements for the year ended December 31, 2021 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 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.

19. Change in Non-Cash Operating Working Capital

	Three Months ended March 31	
$'000	2022	2021
(Increase) decrease in trade and other receivables	**(5,741)**	1,490
Decrease (increase) in prepayments	**111**	(52)
Decrease in trade and other payables	**(1,016)**	(2,505)
Decrease in APT	**(8,503)**	(11,546)
Increase in tax payable	**626**	1,034
	(14,523)	(11,579)

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 March 31, 2022, 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. As of March 31, 2022, the Company recorded $0.7 million as a loss allowance with respect to Preference Shares (December 31, 2021: $0.7 million).

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

	As at	
$'000	March 31, 2022	December 31, 2021
Balance, beginning of period	**3,116**	1,523
Net income attributable to non-controlling interest	**712**	1,593
Balance, end of period	**3,828**	3,116