Orca Energy Group Inc.

2024 Q2 Interim Report

Q2 2024 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 six-month periods ended June 30, 2024.

Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited)

		Three Months ended June 30		Six Months ended June 30	
$'000	Note	**2024**	2023	**2024**	2023
Revenue	6, 7	**25,014**	**28,006**	**49,951**	58,413
Production, distribution and transportation		**3,849**	**4,354**	**8,159**	9,489
Net production revenue		**21,165**	**23,652**	**41,792**	48,924
Operating expenses					
General and administrative		**4,954**	**4,313**	**9,254**	7,756
Stock based compensation	14	**–**	**5**	**–**	7
Depletion	10	**6,291**	**8,624**	**13,742**	18,225
Reversal of loss allowance for receivables		**–**	**(1,495)**	**–**	(1,495)
Finance income	8	**(781)**	**(455)**	**(1,730)**	(718)
Finance expense	8	**6,441**	**5,110**	**10,817**	8,291
Income before tax		**4,260**	**7,550**	**9,709**	16,858
Income tax expense – current		**3,285**	**4,072**	**5,685**	8,817
Income tax recovery – deferred		**(1,739)**	**(1,834)**	**(1,842)**	(3,389)
Additional Profits Tax		**1,526**	**2,030**	**3,709**	4,234
Net income		**1,188**	**3,282**	**2,157**	7,196
Net income attributable to non-controlling interest	20	**–**	**566**	**–**	973
Net income attributable to shareholders		**1,188**	**2,716**	**2,157**	6,223
Foreign currency translation gain from foreign operations		**–**	**16**	**–**	38
Comprehensive income		**1,188**	**2,732**	**2,157**	6,261
Net income attributable to shareholders per share *($)*					
Basic and diluted	15	**0.06**	0.14	**0.11**	0.31

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Financial Position (Unaudited)

		As at	
$'000	Note	**June 30, 2024**	December 31, 2023
ASSETS			
Current assets			
Cash and cash equivalents		**97,226**	101,566
Trade and other receivables	9	**29,498**	32,837
Prepayments		**1,111**	1,637
		127,835	136,040
Non-current assets			
Long-term receivables	12	**10**	10
Capital assets	10	**68,774**	79,381
		68,784	79,391
Total assets		**196,619**	215,431
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other liabilities	11	**38,566**	38,407
Tax payable		**5,215**	4,326
Current portion of long-term loan	13	**10,000**	10,000
Current portion of Additional Profits Tax		**5,483**	15,984
		59,264	68,717
Non-current liabilities			
Deferred income taxes		**18,253**	20,095
Lease liabilities	10	**448**	456
Long-term loan	13	**25,066**	29,961
Additional Profits Tax		**5,751**	7,524
		49,518	58,036
Total liabilities		**108,782**	126,753
SHAREHOLDERS' EQUITY			
Capital stock	14	**46,986**	47,067
Accumulated other comprehensive income		**16**	16
Accumulated income		**40,835**	41,595
		87,837	88,678
Total equity and liabilities		**196,619**	215,431

See accompanying notes to the condensed consolidated interim financial statements.

Nature of operations (Note 1); Contractual obligations (Note 17); Contingencies (Note 18).

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

		Three Months ended June 30		Six Months ended June 30	
$'000	Note	**2024**	2023	**2024**	2023
OPERATING ACTIVITIES					
Net Income		**1,188**	3,282	**2,157**	7,196
Adjustment for:					
Depletion and depreciation	10	**6,427**	8,721	**13,989**	18,416
Indirect tax	8	**328**	343	**643**	680
Stock based compensation	14	**-**	5	**-**	7
Deferred income tax		**(1,739)**	(1,834)	**(1,842)**	(3,389)
Additional Profits Tax		**1,526**	2,030	**3,709**	4,234
Unrealized loss/(gain) on foreign exchange		**686**	161	**(1,802)**	116
Interest expense	8	**1,664**	2,248	**2,755**	4,120
Finance income		**-**	-	**-**	241
Change in non-cash working capital	19	**6,667**	1,204	**(9,032)**	(7,989)
Net cash flows from operating activities		**16,747**	16,160	**10,577**	23,632
INVESTING ACTIVITIES					
Capital expenditures	10	**(2,099)**	(1,866)	**(3,484)**	(3,363)
Net cash used in investing activities		**(2,099)**	(1,866)	**(3,484)**	(3,363)
FINANCING ACTIVITIES					
Lease payments		**(157)**	(139)	**(170)**	(153)
Normal course issuer bid	14	**(88)**	(8)	**(96)**	(132)
Long-term loan repayment	13	**(5,000)**	(5,000)	**(5,000)**	(5,000)
Interest paid	8	**(3,975)**	(4,198)	**(5,003)**	(5,483)
Dividends paid to shareholders	14	**(1,451)**	(1,496)	**(2,932)**	(2,954)
Net cash used in financing activities		**(10,671)**	(10,841)	**(13,201)**	(13,722)
Increase/(decrease) in cash		**3,977**	3,453	**(6,108)**	6,547
Cash and cash equivalents at the beginning of the period		**93,936**	99,517	**101,566**	96,321
Effect of change in foreign exchange on cash for the period		**(687)**	(98)	**1,768**	4
Cash and cash equivalents at the end of the period		**97,226**	102,872	**97,226**	102,872

See accompanying notes to the condensed consolidated interim financial statements.

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

$'000	Capital Stock	Accumulated other comprehensive income	Accumulated income	Total
Note	*14*		*14*	
Balance as at December 31, 2023	47,067	16	41,595	88,678
Share repurchase	(81)	–	(15)	(96)
Dividends declared	–	–	(2,902)	(2,902)
Net income	–	–	2,157	2,157
Balance as at June 30, 2024	**46,986**	**16**	**40,835**	**87,837**

$'000	Capital stock	Accumulated other comprehensive loss	Accumulated income	Non-controlling interest	Total
Note	*14*		*14*	*20*	
Balance as at December 31, 2022	47,257	(272)	42,631	5,670	95,286
Share repurchase	(86)	–	(46)	–	(132)
Dividends declared	–	–	(2,960)	–	(2,960)
Foreign currency translation adjustment on foreign operations	–	38	–	–	38
Net income	–	–	6,223	973	7,196
Balance as at June 30, 2023	47,171	(234)	45,848	6,643	99,428

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 Company maintains central management and control and has established tax residency in the United Kingdom.

The condensed consolidated interim financial statements of the Company as at June 30, 2024 and for the three and six months ended June 30, 2024 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 August 22, 2024. The Company is controlled by Shaymar Limited who is the registered holder of 24.8% of the equity and controls 71.6% 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" was owned by TPDC and was sold under a 20-year gas agreement until July 31 2024 ("Gas Agreement") to Songas Limited ("Songas") and Tanzania Portland Cement PLC ("TPCPLC"). 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"). Protected Gas ceased effective July 31, 2024.

The Tanzanian Electric Supply Company Limited ("TANESCO") is responsible for the majority of electricity generation, transmission and distribution throughout Tanzania. Natural gas has become an integral component of TANESCO's power generation as a more reliable source of supply over seasonal hydropower as well as a more cost-effective and lower carbon dioxide intensive alternative to liquid fuels. The Company and TPDC as joint sellers currently supply Additional Gas directly to TANESCO by way of the Portfolio Gas Supply Agreement ("PGSA") and indirectly through the supply of Additional Gas to Songas, which in turn generates and sells power to TANESCO. The Company also supplies Additional Gas to TPDC through a long-term gas sales agreement ("LTGSA") utilizing the National Natural Gas Infrastructure ("NNGI"). The PGSA was extended on July 30, 2024. The PGSA and the LTGSA expire on October 10, 2026.

In addition to supplying gas to TPDC, Songas and TANESCO, the Company has developed 50 contracts to supply gas to Dar es Salaam's industrial market, and sells compressed natural gas to domestic, suitably converted vehicles in Dar es Salaam.

On April 14, 2023, PAET formally requested TPDC to apply for an extension of the Songo Songo Development License (the "License"), which as of the date of this report TPDC has not done. There are currently no certainties on the timing, nature and extent of any such extensions. Until such extension has been finalized, a high degree of uncertainty exists with respect of the extent of the Company's operating activities subsequent to October 2026.

On April 15, 2024, contrary to the terms of the Gas Agreement and PSA and in violation of PAEM and PAET's legitimate expectations, the Permanent Secretary of the Minister of Energy of Tanzania wrote to TPDC, copying PAET and Songas, directing TPDC to "ensure that Protected Gas continue to be produced to the end of the Development Licence on 10th October 2026". Consistent with that instruction, TPDC has taken the position that Protected Gas should continue despite the parties' contractual agreement that Protected Gas would end on July 31, 2024. We believe that PAET will be entitled to compensation at a commercial rate for all volumes of gas lifted by Songas and TPCPLC starting on August 1, 2024. Uncontracted gas has continued to flow post August 1, 2024, and there is a risk that PAET will not receive payment or payment may form part of a contract dispute.

On August 7, 2024 PAET and PAEM, issued a notice of dispute in respect of an investment treaty claim under the Agreement on Promotion and Reciprocal Protection of Investment between the Government of the Republic of Mauritius and the GoT (the "BIT") against the GoT for breach of the BIT, alongside notifying a contractual dispute against the GoT and TPDC for breaches of: (i) the PSA, and (ii) the Gas Agreement between the GoT, TPDC, Songas and PAET, for damages in excess of $1.2 billion.

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

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, 2023.

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 condensed consolidated financial statements are presented in United States dollars ("$") unless otherwise stated.

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 reporting issuers. 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, 2023. There have been no changes in accounting policies for the six month period ended June 30, 2024 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, 2023.

See Note 4 of the audited consolidated financial statements for the year ended December 31, 2023 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 June 30, 2024 and December 31, 2023, loss allowance exists against all of the long-term TANESCO receivable, gas plant operations receivables from Songas, and a receivable of $0.5 million from one industrial customer. No write-off of any receivables occurred in Q1 and Q2 2024 (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.

5. Risk Management cont.

B. Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its liabilities. Cash forecasts identifying liquidity requirements of the Company are produced on a regular basis. These are reviewed to ensure sufficient funds exist to finance the Company's current operational and investment cash flow requirements. At June 30, 2024 the Company has working capital, defined as total current assets less total current liabilities, of $68.6 million which is net of $59.3 million of financial liabilities with regards to trade and other liabilities of which $42.9 million is due within one to three months, $5.9 million is due within three to six months, and $10.5 million is due within six to twelve months (see Note 11).

As at June 30, 2024 approximately 37% 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 reduced travel throughout the world. Tourism is a major source of revenue and foreign currency for Tanzania and the decrease in travel combined with global economic slowdown have seen an increasing decline in foreign exchange reserves in Tanzania. During 2023 and Q1 and Q2 2024, it has been more difficult for the Company to convert Tanzanian shillings directly to US dollars in country, however, as at the date of this report, this has not significantly impacted PAET's ability to meet its US dollar liabilities or obligations. There is a risk that in the future the Company may not be able to convert Tanzanian shillings to US dollars or other hard currencies as and when required to attract capital. It is unknown how long this risk will continue, however the Company has noted the greater availability of Euros in Tanzania in 2024.

There is a risk that PAET will not receive compensation for the volumes that were previously designated as Protected Gas prior to July 31, 2024, which were lifted after August 1, 2024. If this is the case, these volumes may not meet the definition of revenue under IFRS 15, so would not be reflected as revenue going forward until the potential dispute is resolved.

6. Segment Information

The Company has one reportable industry segment which is international exploration, development and production of petroleum and natural gas. During 2023 and Q1 and Q2 2024 the Company's producing assets were entirely located in Tanzania.

7. Revenue

	Three Months ended June 30		Six Months ended June 30	
$/000	**2024**	2023	**2024**	2023
Industrial sector	**10,849**	10,943	**22,216**	21,052
Power sector	**17,513**	23,423	**38,763**	50,057
Gross field revenue	**28,362**	34,366	**60,979**	71,109
TPDC share of revenue	**(6,340)**	(10,636)	**(15,746)**	(22,209)
Company operating revenue	**22,022**	23,730	**45,233**	48,900
Current income tax adjustment	**2,992**	4,276	**4,718**	9,513
	25,014	28,006	**49,951**	58,413

The Company recognized 100% of amounts invoiced for deliveries to TANESCO as revenue during the first six months of 2023 and 2024. During Q2 2024 the Company invoiced TANESCO $11.1 million for gas deliveries (Q2 2023: $6.9 million) and received $14.8 million in payments for current receivables (Q2 2023: $2.8 million). These amounts are inclusive of value added tax ("VAT"). Based on the consistent payments from TANESCO, the Company recognized all amounts invoiced for gas deliveries in Q2 2024 and Q2 2023 as revenue.

Subsequent to June 30, 2024 the Company has invoiced TANESCO $3.7 million for July 2024 gas deliveries and TANESCO has paid the Company $6.7 million.

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

8. Finance Income and Expense

Finance Income

	Three Months ended June 30		Six Months ended June 30	
$'000	**2024**	2023	**2024**	2023
Interest income	**781**	455	**1,730**	718
	781	455	**1,730**	718

Finance Expense

	Three Months ended June 30		Six Months ended June 30	
$'000	**2024**	2023	**2024**	2023
Base interest expense	**956**	1,219	**2,033**	2,545
Participation interest expense	**696**	1,028	**696**	1,571
Lease interest expense	**12**	1	**26**	4
Interest expense	**1,664**	2,248	**2,755**	4,120
Net foreign exchange loss	**4,449**	314	**7,419**	1,286
Indirect tax	**328**	343	**643**	680
Long-term receivable write off	**–**	2,205	**–**	2,205
	6,441	5,110	**10,817**	8,291

Base interest expense and participation interest expense relate to the long-term loan ("Loan") from the International Finance Corporation ("IFC") to PAET. 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 to accrue until October 15, 2026 regardless of whether the Loan is repaid prior to its contractual maturity date (see Note 13).

Net foreign exchange loss includes realized and unrealized revaluation gains and losses. The unrealized revaluation gain is mainly due to the reversal of previously recognized unrealized temporary changes in the fair value of cash balances denominated in Tanzanian shillings that are now considered permanent in nature and recognized as realized exchange losses. The indirect tax includes VAT on the invoices to TANESCO for interest on late payments.

9. Current Trade and Other Receivables

$'000	As at June 30, 2024	December 31, 2023
Trade receivables		
Songas	**2,060**	2,389
TPDC	**5,597**	3,841
TANESCO	**6,262**	5,851
Industrial customers	**10,234**	11,500
Loss allowance	**(452)**	(452)
	23,701	23,129
Other receivables		
Songas gas plant operations	**2,236**	3,127
Songas well workover program	**–**	2,630
Other	**4,286**	4,676
Loss allowance	**(725)**	(725)
	5,797	9,708
	29,498	32,837

Songas

As at June 30, 2024 Songas owed the Company $4.3 million (December 31, 2023: $8.1 million), while the Company owed Songas $1.4 million (December 31, 2023: $3.0 million). The amounts due to the Company are mainly for sales of gas of $2.1 million (December 31, 2023: $2.4 million) and for the operation of the gas plant of $2.2 million (December 31, 2023: $3.1 million) against which the Company has made a loss allowance of $0.7 million (December 31, 2023: $0.7 million). The amounts due to Songas primarily relate to pipeline tariff charges of $0.9 million (December 31, 2023: $2.3 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis.

TPDC

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

Reversal of loss allowance for receivables

$'000	Three Months ended June 30 2024	Three Months ended June 30 2023	Six Months ended June 30 2024	Six Months ended June 30 2023
Reversal of loss allowance	**–**	1,495	**–**	1,495

There were no new allowances or reversals of loss allowance in Q1 2024 or Q1 2023. The reversal of loss allowance of $1.5 million in Q2 2023 and for the six months ended June 30, 2023 is associated with the indirect taxation related to the TANESCO 2020 and 2021 take or pay invoices which were paid in Q2 2023 and had been previously not recognized.

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, 2023	297,027	3,106	1,987	302,120
Additions	3,078	304	–	3,382
As at June 30, 2024	**300,105**	**3,410**	**1,987**	**305,502**
Accumulated depletion and depreciation				
As at December 31, 2023	218,681	2,889	1,169	222,739
Additions	13,742	92	155	13,989
As at June 30, 2024	**232,423**	**2,981**	**1,324**	**236,728**
Net book values				
As at June 30, 2024	**67,682**	**429**	**663**	**68,774**

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 June 30, 2024 the estimated future development costs required to bring the total proved reserves to production were $13.5 million (December 31, 2023: $16.6 million). During the six months ended June 30, 2024 the Company recorded depreciation of $0.2 million (six months ended June 30, 2023: $0.2 million) in general and administrative expenses.

In the event that volumes, which were previously Protected Gas volumes prior to July 21, 2024, are lifted by Songas and TPCPLC after August 1, 2024 and the Company does not receive compensation for these volumes, the Company may need to adjust the current depletion rates to effect the anticipated loss in value to the end of the licence.

Right-of-use assets

$'000	
As at December 31, 2023	818
Depreciation	(155)
As at June 30, 2024	**663**

Lease liabilities

$'000	
As at December 31, 2023	717
Lease interest expense	26
Lease payments	(170)
As at June 30, 2024	**573**

Right-of-use assets are presented as part of capital assets on the Company's balance sheet. Of the total lease liability of $0.6 million (December 31, 2023: $0.2 million), $0.1 million (December 31, 2023: $0.2 million) is current and is presented in trade and other liabilities.

11. Trade and Other Liabilities

	As at	
$'000	**June 30, 2024**	December 31, 2023
Songas	**1,436**	2,981
Other trade payables	**290**	2,331
Trade payables	**1,726**	5,312
TPDC Profit Gas entitlement, net	**22,049**	17,199
Deferred income – take or pay contracts	**943**	1,144
Accrued liabilities	**13,848**	14,752
	38,566	38,407

TPDC share of Profit Gas

	As at	
$'000	**June 30, 2024**	December 31, 2023
TPDC share of Profit Gas	**30,847**	26,075
Less "Adjustment Factor"	**(8,798)**	(8,876)
TPDC Profit Gas entitlement, net	**22,049**	17,199

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 $22.0 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

	As at	
$'000	**June 30, 2024**	December 31, 2023
Amounts invoiced to TANESCO	**94,438**	89,809
Trade receivables – TANESCO	**(6,262)**	(5,851)
Unrecognized amounts not meeting revenue recognition criteria[1]	**(66,158)**	(61,940)
Loss allowance	**(22,018)**	(22,018)
Net TANESCO receivable	**–**	–
Lease deposit	**10**	10
	10	2,215

1 The amount includes invoices for interest on late payments from TANESCO.

The Company recognized 100% of amounts invoiced for deliveries to TANESCO as revenue during 2023 and Q1 and Q2 2024.

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 its guarantee obligation in 2025. Pursuant to the sale of the non-controlling interest in PAEM, the parent company of PAET, in 2018, the Company agreed with the IFC to reduce the outstanding amount of the Loan by the percentage interest sold of 7.933% ($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	**June 30, 2024**	December 31, 2023
Loan principal	**35,240**	40,240
Financing costs	**(174)**	(279)
Current portion of long-term loan	**(10,000)**	(10,000)
	25,066	29,961

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					
	June 30, 2024			December 31, 2023		
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**	**18,020**	**46,003**	100,000	18,051	46,084
First preference shares	**100,000**	**–**	**–**	100,000	–	–
	250,000	**19,770**	**46,986**	250,000	19,801	47,067

On November 1, 2023 the Company announced a normal course issuer bid ("2023 NCIB") to commence on November 6, 2023 to purchase Class B Shares through the facilities of the TSX Venture Exchange and alternative trading systems in Canada. As at June 30, 2024 the Company has repurchased for cancellation 72,700 Class B Shares at a weighted average price of CDN$4.38 pursuant to the 2023 NCIB. All issued capital stock is fully paid.

14. Capital Stock cont.

Changes in Stock Appreciation Rights ("SARs")

Dividend Summary

Declaration date	Record date	Payment date	Amount per share (CDN$)
August 21, 2024	September 30, 2024	Ocober 14, 2024	0.10
May 15, 2024	June 28, 2024	July 12, 2024	0.10
February 1, 2024	March 29, 2024	April 12, 2024	0.10
November 15, 2023	December 29, 2023	January 12, 2024	0.10
August 16, 2023	September 29, 2023	October 13, 2023	0.10
May 17, 2023	June 30, 2023	July 14, 2023	0.10
February 24, 2023	March 31, 2023	April 14, 2023	0.10

15. Earnings Per Share

	Three Months ended June 30		Six Months ended June 30	
(000)	**2024**	2023	**2024**	2023
Outstanding shares				
Weighted average number of Class A and Class B Shares	**19,773**	19,842	**19,786**	19,849
Weighted average diluted number of Class A and Class B Shares	**19,773**	19,842	**19,786**	19,849

The calculation of earnings per share is based on a net income attributable to shareholders for the quarter of $1.2 million (Q2 2023: $2.7 million) and a weighted average number of Class A Shares and Class B Shares outstanding during the quarter ended June 30, 2024 of 19,773,063 (Q2 2023: 19,842,209). The calculation of earnings per share for the six months ended June 30, 2024 is based on a net income of $2.2 million (six months ended June 30, 2023: $6.2 million) and a weighted average number of Class A Shares and Class B Shares outstanding for the six months ended June 30, 2024 of 19,786,156 (six months ended June 30, 2023: 19,848,695).

16. Related Party Transactions

The Chair of the Company's Board of Directors is counsel at 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 $0.2 million during the quarter ended June 30, 2024 (Q2 2023: $0.4 million) and $0.5 million for the six months ended June 30, 2024 (six months ended June 30, 2023: $0.5 million).

As at June 30, 2024 the Company had a total of $0.4 million (December 31, 2023: $0.6 million) recorded in trade and other payables in relation to related parties.

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

17. Contractual Obligations

Protected Gas

Under the terms of the Gas Agreement for the Songo Songo project, in the event that there is a 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 in respect of whichever is the letter of either (i) of the volume of Additional Gas sold which was 333 Bcf as at June 30, 2024 (December 31, 2023: 320 Bcf) or (ii) the insufficiency volume. The Company had been managing its reserves and did not have a shortfall during the reporting period nor does it anticipate a shortfall arising during the term of the Protected Gas delivery obligation, which ceased on July 31, 2024.

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

On April 15, 2024, contrary to the terms of the Gas Agreement and PSA and in violation of PAEM and PAET's legitimate expectations, the Permanent Secretary of the Minister of Energy of Tanzania wrote to TPDC, copying PAET and Songas, directing TPDC to "ensure that Protected Gas continue to be produced to the end of the Development Licence on 10th October 2026". Consistent with that instruction, TPDC has taken the position that Protected Gas should continue despite the parties' contractual agreement that Protected Gas would end on July 31, 2024. It is our belief that PAET will be entitled to payment at a commercial rate for all volumes of gas taken by Songas and TPDCPLC starting on August 1, 2024. Uncontracted gas has continued to flow post August 1, 2024, and there is a risk that PAET will not receive payment or payment may form part of a contract dispute and this will adversely impact the Company's ability to finance its capital requirements.

On August 7, 2024 PAET and PAEM, issued the Notice of Dispute in respect of an investment treaty claim under the BIT against the GoT for breach of the BIT, alongside notifying a contractual dispute against the GoT and TPDC for breaches of: (i) the PSA, and (ii) the Gas Agreement between the GoT, TPDC, Songas and PAET, for damages in excess of $1.2 billion.

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 objected approximately $34.0 million of costs that had been recovered from the Cost Pool from 2002 through to 2009. In 2014 a portion of the objected costs were agreed to be cost recoverable by TPDC with $25.4 million remaining as being objected. 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 queries. 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. In 2022 the Company and PURA negotiated a settlement on certain rejections with respect to 2016 to 2018 audits. As a result of this, $2.7 million was credited to the Cost Pool in Q2 2022. In 2023 the Company and PURA negotiated a settlement on certain rejections with respect to 2019 to 2020 audits. As a result of this, $0.7 million was credited to the Cost Pool in Q2 2023. In Q4 2023, the Company credited to the Cost Pool an additional $0.03 million with respect to 2021 audit. To date there remains a total of $66.6 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. 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 cont.

Taxation

Amounts in $' millions					As at June 30, 2024	As at December 31, 2023
Area	Period	Reason for dispute	Principal	Interest	**Total**	Total
Income Tax	2008-09, 2011-20	Deductibility of capital expenditures and expenses (2012, 2015 and 2016), additional income tax (2008, 2011 and 2012), foreign exchange rate application (2013 to 2015, 2018 to 2020), underestimation of tax due (2014, 2016 and 2020) and methodology of grossing up of income taxes paid (2015 to 2017).	19.9	13.5	**33.4**	34.1
Tax on Repatriated Income	2012-21	Applicability of withholding tax on repatriated income (2012 to 2021)	19.5	4.5	**24.0**	24.4
VAT	2012-20	VAT already paid (2012 to 2014), VAT on imported services (2015 and 2016), interest on VAT decreasing adjustments (2017) and input VAT on services (2017 to 2020).	0.2	1.3	**1.5**	1.5
			39.6	19.3	**58.9**	60.0

During 2022, following the expiry of the statutory deadline for the Tanzania Revenue Authority ("TRA") to respond to the Company's objections, the Company filed notices of intention to appeal to the Tanzania Revenue Appeals Board ("TRAB") against the corporate income tax assessments for the years of 2012 to 2016, tax on repatriated income for the years of 2012 to 2014, and VAT for the years of 2015 to 2016. In May 2023, the TRA issued final corporate income tax assessments for the years of 2012 to 2016 agreeing to drop certain claims with respect to previously assessed corporate income tax for the years of income of 2012 and 2016. These claims are no longer represented in the table above.

In Q4 2023, during the TRAB hearing of the appeals against the notice of assessment for tax on repatriated income for the years of 2012 to 2014 ($13.7 million), the TRA was allowed to file a preliminary objection. In Q1 2024, the parties filed their written submissions and are now awaiting TRAB's decision.

In Q2 2023, the Company filed statements of appeal at the TRAB against the TRA's notices of assessment in respect of the corporation income tax for the years of 2012 to 2016. The matters are to be heard by TRAB on September 3, 2024.

In Q4 2022, the TRA issued seven assessments for tax on repatriated income ($10.5 million) for the years of 2015 to 2021. The Company objected to the assessments on the grounds of the assessments lacking merit; additionally, the assessments for the years of 2015 and 2016 were time-barred. In Q1 2023, the Company received TRA's proposals to settle the objections. In Q2 2023, the Company responded to the proposals. In Q3 2023, following TRA's failure to issue a final determination on the objections within the statutory time limit, the Company filed notices of intention to appeal and in Q4 2023, the Company filed statements of appeal at the TRAB. In Q1 2024 and subsequent to March 31, 2024, the parties filed their respective final written submissions and are awaiting TRAB's decision.

In Q4 2022, the TRA issued six assessments for income tax and for ensuing interest on deemed delayed payments ($0.5 million) for the years of 2018 to 2020. The Company objected to the assessments on the grounds of incorrect disallowance of expenses and use of exchange rates. In Q1 2023, the Company received TRA's proposals to settle the objections. In Q2 2023, the Company responded to the proposals. In Q3 2023, following TRA's failure to issue a final determination on the objections within the statutory time limit, the Company filed notices of intention to appeal and in Q4 2023, the Company filed statements of appeal at the TRAB. In Q1 2024, the appeals came for a hearing at the TRAB and the parties are now awaiting TRAB's decision.

In Q4 2022, the TRA issued an assessment for VAT ($0.1 million) for the years of 2019 and 2020. The Company objected to the assessment on the grounds that the TRA incorrectly disallowed input VAT on certain services. In Q1 2023, the Company received TRA's proposals to settle the objections. In Q2 2023, the Company responded to the proposals. In Q3 2023, following TRA's failure to issue a final determination on the objections within the statutory time limit, the Company filed notices of intention to appeal and in Q1 2024, the Company filed statements of appeal at the TRAB. In Q1 2024, the appeals came for a hearing at the TRAB and the parties are now awaiting TRAB's decision.

In Q3 2023, the Tax Revenue Appeals Tribunal ("TRAT") pronounced its judgment on the corporate income tax appeal for the year 2011 ($1.6 million) in favor of the TRA. The Company filed a Notice of Intention to Appeal at the Court of Appeal of Tanzania ("CAT"). In Q4 2023, the Company filed a Memorandum of Appeal and is awaiting a hearing date.

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

18. Contingencies cont.

Taxation cont.

Subsequent to June 30, 2024, the Company withdrew its application for the Court of Appeal of Tanzania ("CAT") to review its judgement on the corporate income tax for the year of 2009 ($1.5 million). The matter is now marked withdrawn. Parties will now negotiate on the implementation of CAT's judgement of 2018 in favour of TRA. At an earlier judgement, TRAB, while ruled in favour of the TRA, also allowed the Company to utilise the depreciation allowance, which was the issue in dispute, in subsequent years. The Company had already made full provision in the accounts of the amount in dispute.

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 TRAB, followed by an appeal to the TRAT and finally to the CAT. See Note 21 of the audited consolidated financial statements for the year ended December 31, 2023 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 sections 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 June 30		Six Months ended June 30	
$'000	**2024**	2023	**2024**	2023
Decrease in trade and other receivables	**6,916**	1,789	**2,713**	6,950
Decrease in prepayments	**277**	88	**526**	216
Decrease in long-term receivables	**–**	2,205	**–**	2,205
(Decrease)/increase in trade and other payables	**(1,015)**	(3,062)	**2,823**	(7,143)
Decrease in APT	**–**	–	**(15,983)**	(13,146)
Increase in tax payable	**489**	184	**889**	2,929
	6,667	1,204	**(9,032)**	(7,989)

20. Non-Controlling Interest

The Company sold 7.933% (7,933 Class A common shares) of PAEM to a wholly owned subsidiary of Swala Oil & Gas (Tanzania) plc ("Swala TZ"), Swala (PAEM) Limited's ("Swala UK") in 2018 for $15.4 million cash and $4.0 million of Swala TZ's Preference Shares pursuant to a share purchase agreement. The Preference Shares entitled 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 was at the discretion of Swala TZ based on funds available, however, the liability accrued if any amount was unpaid when due. For any distributable amount remaining unpaid at December 31, 2021, the Company may demand settlement and Swala TZ was obligated to comply by transferring and returning the Class A common shares of PAEM sold to Swala TZ. The aggregate value of these shares will equal the amount of the outstanding distributions.

Swala TZ was 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 TZ did not redeem in cash the required number of Preference Shares, Swala TZ was obligated to redeem the Preference Shares by transferring and returning the Class A common shares of PAEM sold to Swala TZ. The aggregate value of these Class A common shares is equal to the amount of any outstanding redemption. On August 8, 2022, the Company issued a redemption notice to Swala TZ, requesting that Swala TZ redeem 20% of the outstanding Preference Shares by August 23, 2022. On January 31, 2023 the Company issued a further redemption notice to Swala TZ, requesting that Swala TZ redeem a further 20% of the outstanding Preference Shares by February 15, 2023.

On April 3, 2023, Swala TZ announced that its creditors resolved that Swala TZ be placed into liquidation at a creditors' meeting held on March 31, 2023. On March 31, 2023, Apex Corporate Trustees (UK) Limited appointed representatives of Grant Thornton UK LLP as administrators of Swala UK. On July 21, 2023, the Company repurchased the 7.933% shares in PAEM held by Swala UK for $7.5 million and the non-controlling interest is therefore eliminated in 2023.

21. Subsequent Events

On April 15, 2024, contrary to the terms of the Gas Agreement and PSA and in violation of PAEM and PAET's legitimate expectations, the Permanent Secretary of the Minister of Energy of Tanzania wrote to TPDC, copying PAET and Songas, directing TPDC to "ensure that Protected Gas continue to be produced to the end of the Development Licence on 10th October 2026". Consistent with that instruction and subsequent to June 30, 2024, TPDC has taken the position that Protected Gas should continue despite the parties' contractual agreement that Protected Gas would end on July 31, 2024.

It is our belief that PAET will be entitled to payment at a commercial rate for all volumes of gas taken by Songas and TPDCPLC starting on August 1, 2024. Uncontracted gas has continued to flow post August 1, 2024, and there is a risk that PAET will not receive payment or payment may form part of a contract dispute.

On August 7, 2024 PAET and PAEM, issued a notice of dispute in respect of an investment treaty claim under the BIT against the GoT for breach of the BIT, alongside notifying a contractual dispute against the GoT and TPDC for breaches of: (i) the PSA, and (ii) the Gas Agreement between the GoT, TPDC, Songas and PAET, for damages in excess of $1.2 billion.

Corporate Information

Board of Directors

Jay Lyons

Executive Director and
Chief Executive Officer
Vancouver, Canada

Lisa Mitchell

Executive Director and
Chief Financial Officer
London, UK

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

Lisa Mitchell

Chief Financial Officer
London, UK

Ewen Denning

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