Management's Report to Shareholders

The accompanying consolidated financial statements of Orca Energy Group Inc. are the responsibility of Management. The financial and operating information presented in this annual report is consistent with that shown in the consolidated financial statements.

The consolidated financial statements have been prepared by Management, on behalf of the Board, in accordance with the accounting policies disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB") appropriate in the circumstances.

Management maintains appropriate systems of internal controls. Policies and procedures are designed to give reasonable assurance that transactions are properly authorised, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements. An independent firm of Chartered Professional Accountants, as appointed by the Shareholders, audited the consolidated financial statements in accordance with the Canadian Generally Accepted Auditing Standards to enable them to express an opinion on the fairness of the consolidated financial statements in accordance with IFRS as adopted by the IASB.

The Board of Directors carries out its responsibility for the financial reporting and internal controls of the Company principally through an Audit Committee. The committee has met with the independent auditors and Management in order to determine if Management has fulfilled its responsibilities in the preparation of the consolidated financial statements. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

	Lisa Mitchell
Jay Lyons	**Lisa Mitchell**
Chief Executive Officer	Chief Financial Officer
April 20, 2022	April 20, 2022

Independent Auditors' Report

To the Shareholders of Orca Energy Group Inc.

Opinion

We have audited the consolidated financial statements of Orca Energy Group Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion & Analysis and in the document entitled "Annual Report" filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion & Analysis and in the Annual Report filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Petre Gueorguiev Kotev.

KPMG LLP

Chartered Professional Accountants
Calgary, Canada
April 20, 2022

Consolidated Statements of Comprehensive Income

		Years ended December 31	
$'000	Note	2021	2020
Revenue	7	**86,022**	77,874
Production, distribution and transportation		**12,253**	11,904
Net production revenue		**73,769**	65,970
Operating expenses			
General and administrative	8	**11,988**	13,592
Stock based compensation (recovery) expense	17	**(576)**	1,074
Depletion	13	**15,779**	14,830
Reversal of loss allowance	12	**(2,574)**	(15,614)
Finance income	9	**(133)**	(1,149)
Finance expense	9	**9,987**	9,322
Income before tax		**39,298**	43,915
Income tax expense – current	10	**10,192**	7,384
Income tax expense – deferred	10	**6,534**	3,356
Additional Profits Tax	11	**4,609**	4,054
Net income		**17,963**	29,121
Net income attributable to non-controlling interest	24	**1,593**	1,360
Net income attributable to shareholders		**16,370**	27,761
Foreign currency translation (loss) gain from foreign operations		**(6)**	39
Comprehensive income		**16,364**	27,800
Net income attributable to shareholders per share *($)*			
Basic and diluted	18	**0.81**	1.00

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Financial Position

$'000	Note	As at December 31 2021	2020
ASSETS			
Current assets			
Cash and cash equivalents		**72,985**	104,190
Trade and other receivables	12	**30,731**	21,880
Prepayments		**1,133**	898
		104,849	126,968
Non-current assets			
Long-term receivables	15	**2,215**	2,214
Investments	24	**3,240**	3,967
Capital assets	13	**119,967**	109,463
		125,422	115,644
Total assets		**230,271**	242,612
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other liabilities	14	**46,776**	39,287
Tax payable		**2,836**	1,956
Current portion of long-term loan	16	**5,000**	-
Current portion of Additional Profits Tax	11	**8,461**	11,489
		63,073	52,732
Non-current liabilities			
Deferred income taxes	10	**25,043**	18,509
Lease liabilities	13	**176**	423
Long-term loan	16	**49,603**	54,246
Additional Profits Tax	11	**20,922**	24,830
		95,744	98,008
Total liabilities		**158,817**	150,740
SHAREHOLDERS' EQUITY			
Capital stock	17	**47,454**	63,243
Accumulated other comprehensive loss		**(177)**	(171)
Accumulated income		**21,061**	27,277
Non-controlling interest	24	**3,116**	1,523
		71,454	91,872
Total equity and liabilities		**230,271**	242,612

See accompanying notes to the consolidated financial statements.

Nature of operations (Note 1); Contractual obligations and committed capital investment (Note 20); Contingencies (Note 21); Subsequent events (Note 25). The consolidated financial statements were approved by the Board on April 20, 2022.

Jay Lyons
Chief Executive Officer
April 20, 2022

Linda Beal
Chair of Audit and Risk Committee
April 20, 2022

Consolidated Statements of Cash Flows

$'000	Note	Years ended December 31 2021	2020
OPERATING ACTIVITIES			
Net Income		**17,963**	29,121
Adjustment for:			
Depletion and depreciation	13	**16,106**	15,321
Loss on disposal of lease		**–**	293
Indirect tax	9	**1,826**	1,873
Stock based compensation (recovery) expense	17	**(576)**	1,074
Deferred income taxes	10	**6,534**	3,356
Additional Profits Tax	11	**4,609**	4,054
Loss allowance	12	**1,188**	–
Unrealized loss (gain) on foreign exchange		**387**	(334)
Interest expense	9	**6,945**	7,887
Change in non-cash operating working capital	23	**(14,872)**	(16,140)
Net cash flows from operating activities		**40,110**	46,505
INVESTING ACTIVITIES			
Capital expenditures	13	**(24,985)**	(27,036)
Proceeds from sale of investments in bonds, net	9	**–**	44,756
Net cash (used in) from investing activities		**(24,985)**	17,720
FINANCING ACTIVITIES			
Lease payments	13	**(319)**	(759)
Substantial issuer bid	17	**(31,872)**	(38,170)
Normal course issuer bid	17	**(131)**	(2,149)
Interest paid	9	**(7,198)**	(7,887)
Dividends paid to shareholders	17	**(6,429)**	(5,443)
Net cash used in financing activities		**(45,949)**	(54,408)
(Decrease) increase in cash		**(30,824)**	9,817
Cash and cash equivalents at the beginning of the year		**104,190**	93,899
Effect of change in foreign exchange on cash for the year		**(381)**	474
Cash and cash equivalents at the end of the year		**72,985**	104,190

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

$'000	Capital stock	Accumulated other comprehensive loss	Accumulated income	Non-Controlling Interest	Total
Note	*17*		*17*	*24*	
Balance as at December 31, 2020	63,243	(171)	27,277	1,523	91,872
Share repurchase	(15,789)	–	(16,012)	–	(31,801)
Share repurchase costs	–	–	(202)	–	(202)
Dividends declared	–	–	(6,372)	–	(6,372)
Foreign currency translation adjustment on foreign operations	–	(6)	–	–	(6)
Net income	–	–	16,370	1,593	17,963
Balance as at December 31, 2021	**47,454**	**(177)**	**21,061**	**3,116**	**71,454**

$'000	Capital stock	Contributed surplus	Accumulated other comprehensive loss	Accumulated income	Non-Controlling Interest	Total
Note	*17*			*17*	*24*	
Balance as at December 31, 2019	84,099	4,181	(210)	20,334	163	108,567
Share repurchase	(20,856)	(4,181)	–	(14,460)	–	(39,497)
Share repurchase costs	–	–	–	(822)	–	(822)
Dividends declared	–	–	–	(5,536)	–	(5,536)
Foreign currency translation adjustment on foreign operations	–	–	39	–	–	39
Net income	–	–	–	27,761	1,360	29,121
Balance as at December 31, 2020	**63,243**	**–**	**(171)**	**27,277**	**1,523**	**91,872**

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

General Information

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

The consolidated financial statements of the Company as at and for the year ended December 31, 2021 comprise 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 April 20, 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 Electricity Supply Company Limited ("TANESCO") is a parastatal organization which is wholly-owned by the Government of Tanzania, with oversight by the Ministry for 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 Additional 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of Measurement

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

Basis of Consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Company. The following companies have been consolidated within the Orca Energy financial statements:

Subsidiary	Registered	Holding	Functional currency
Orca Energy Group Inc.	British Virgin Islands	Parent Company	US dollar
Orca Exploration UK Services Limited	United Kingdom	100%	British pound
PAE PanAfrican Energy Corporation ("PAEM")	Mauritius	92%	US dollar
PanAfrican Energy Tanzania Limited	Jersey	92%	US dollar
Orca Exploration Italy Inc.[1]	British Virgin Islands	100%	Euro
Orca Exploration Italy Onshore Inc[1]	British Virgin Islands	100%	Euro

[1] The companies were wound up during 2020.

2. Basis of Preparation cont.

Transactions Eliminated Upon Consolidation

Inter-company balances and transactions and any unrealized gains or losses arising from inter-company transactions are eliminated in preparing the consolidated financial statements.

Foreign Currency

i) Foreign Currency Transactions

Transactions in foreign currencies are recorded at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at period-end rates. Non-monetary items are translated at historic rates, unless such items are carried at market value, in which case they are translated using the exchange rates that existed when the values were determined. Any resulting exchange rate differences are recognized in earnings.

ii) Foreign Currency Translation

Foreign currency differences are recognized in comprehensive income and accumulated in the translation reserve. The assets and liabilities of these companies are translated into the functional currency at the period-end exchange rate. The income and expenses of the companies are translated into the functional currency at the average exchange rate for the period. Translation gains and losses are included in other comprehensive income.

COVID-19

There has been no significant change in the Company's business during the year ended December 31, 2021 as a result of the ongoing coronavirus pandemic ("COVID-19"). The Tanzanian government has introduced new restrictions and continued with its 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 accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Capital Assets

i) Capital Assets

Capital assets comprises the Company's tangible natural gas assets, development wells, leasehold improvements, computer equipment, motor vehicles and fixtures and fittings carried at cost, right-of-use assets less any accumulated depletion, depreciation and accumulated impairment losses. Cost includes purchase price and construction costs for qualifying assets. Depletion of these assets commences when the assets are ready for their intended use. Only costs that are directly related to the discovery and development of specific oil and gas reserves are capitalized. The cost associated with tangible natural gas assets are amortized on a unit of production method based on commercial proven reserves. The calculation of the unit of production amortization takes into account the estimated future development cost associated with proven reserves.

ii) Impairment of Property, Plant and Equipment

At each balance sheet date, the Company reviews the carrying amounts of its property, plant and equipment to determine if indicators of impairment exist. Individual assets are grouped together as a cash generating unit ("CGU") for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are independent from other group assets. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value with a pre-tax discount rate that reflects the current market indicators. The fair value less costs to sell is the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. Where an impairment loss subsequently reverses, the carrying amount of the asset CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the CGU in prior years. A reversal of an impairment loss is recognized in earnings.

3. Summary of Significant Accounting Policies cont.

Operatorship

The Company operates the Songo Songo Gas Field, flowlines and gas processing plant. The Songas wells, flowlines and gas plant are operated by the Company on behalf of Songas on a "no gain no loss" basis. The cost of operating and maintaining the wells and flowlines is paid for by the Company and Songas in proportion to the respective volumes of Protected Gas and Additional Gas sales. The costs of operating and maintaining the wells and flowlines are reflected in the accounts to the extent that the costs were incurred to accomplish Additional Gas sales. The cost of operating the gas processing plant and pipeline to Dar es Salaam is paid by Songas. Costs incurred by the Company in connection with the operatorship of the Songas plant are recorded as receivables which are re-charged to Songas. Subsequent payments received from Songas are credited to receivables. When there are Additional Gas sales, a tariff is paid to Songas as compensation for using the gas processing plant and pipeline.

Employment Benefits

i) Pension

The Company does not operate a pension plan, but it does make defined contributions to the statutory pension fund for employees in the United Kingdom and Tanzania. Obligations for contributions to the statutory pension fund are recognized as an expense as incurred.

ii) Stock Appreciation Rights and Restricted Stock Units

Stock appreciation rights ("SARs") and restricted stock units ("RSUs") are issued to certain key managers, officers, Directors and employees. The fair value of SARs and RSUs are recorded in earnings in accordance with the service period. The fair value of the SARs and RSUs is revalued every reporting date with the change in the value recognized in earnings.

Asset Retirement Obligations

No provision has been made for future site restoration costs in Tanzania because the Company currently has no legal or contractual or constructive obligation under the PSA to restore the fields at the end of their commercial lives, should such occur within the term of the PSA. If an amendment to the PSA is agreed requiring the Company to restore the fields at the end of the commercial lives, a provision will be made for future site restoration costs.

Revenue Recognition, Production Sharing Agreements and Royalties

Pursuant to the terms of the PSA, the Company has exclusive rights (i) to carry on Exploration Operations in the Songo Songo Gas Field; (ii) to carry on Development Operations in the Songo Songo Gas Field and (iii) jointly with TPDC, to sell or otherwise dispose of Additional Gas.

The Company recognizes revenue related to Additional Gas sales to all customers at specified delivery points at benchmark and contractual prices.

A good or service is transferred when the customer obtains control of that good or service. The transfer of control of natural gas occurs at the metering points at the inlet to the customer's facility. Under the terms of the PSA, the Company pays both its share and TPDC's share of operating, administrative and capital costs. The Company recovers all reasonably incurred operating, administrative and capital costs including TPDC's share of these costs from future revenues over several years ("Cost Gas"). TPDC's share of operating and administrative costs is recorded in operating and general and administrative costs when incurred and capital costs are recorded in capital assets. All recoveries are recorded as Cost Gas revenue in the year of recovery.

The Company has gas sales contracts under which the customers are required to take, or pay for, a minimum quantity of gas. In the event that a customer has paid for gas that was not delivered, the additional income received by the Company is carried on the balance sheet as deferred revenue. If the customer consumes volumes in excess of the minimum, it will be charged at the current rate, but may receive a credit for volumes paid but not delivered. At the end of each reporting period the Company reassesses the volumes for which the customer may receive credit, any remaining balance is credited to income. As at December 31, 2021, future revenues from take or pay provisions of the LTGSA extending through 2026 are approximately $1.0 million, of which approximately $0.7 million is expected to be recognized in 2022. As at December 31, 2021, future revenues from take or pay provisions of the PGSA extending through 2026 are approximately $4.2 million, of which $4.2 million is expected to be recognized in 2022.

In any given year, the Company is entitled to recover as Cost Gas up to 75% of the net revenue (gross revenue less processing and pipeline tariffs). Any net revenue in excess of the Cost Gas ("Profit Gas") is shared between the Company and TPDC in accordance with the terms of the PSA. Under the PSA the Profit Gas payable to TPDC is adjusted by the amount necessary to fully pay and discharge the Company's liability for taxes on income. Revenue represents the Company's share of Profit Gas and Cost Gas during the period.

The Company records revenues for sales to TANESCO based on the expected amount to be collected, which represents a percentage of the amounts invoiced to TANESCO determined by comparison of TANESCO's payment history to the amounts invoiced by the Company. Management believes this approach provides the best estimate of TANESCO's ability to pay and remain reasonably current; it also reflects the economic reality of the situation (see Notes 4 and 7).

3. Summary of Significant Accounting Policies cont.

Revenue Recognition, Production Sharing Agreements and Royalties cont.

The estimated percentage used to recognize TANESCO revenue will be reviewed periodically as circumstances require. If there is a significant difference between the amount of revenue recorded and amounts received, the percentage used to record revenue as well as any existing receivable or deferred revenue balance will be revised accordingly. For the years ended December 31, 2020 and 2021 the Company recognized 100% of amounts invoiced for TANESCO gas deliveries in revenue as payments from TANESCO for the past five years have consistently been higher than amounts invoiced for gas deliveries apart from Q3 and Q4 2021. As of December 31, 2021, the Company had $2.0 million of TANESCO current receivables which was settled in Q1 2022.

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

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

Additional Profits Tax

Under the terms of the PSA, in the event that all costs have been recovered with an annual return from the PSA of 25% plus the percentage change in the United States Industrial Goods Producer Price Index, an Additional Profits Tax ("APT") is payable to the Government of Tanzania. APT is provided for by forecasting the total APT payable in the future as a proportion of the forecast Profit Gas over the term of PSA license. The actual APT that will be paid is dependent on the achieved value of the Additional Gas sales and the quantum and timing of the operating costs and capital expenditure program.

The PSA states that APT shall be calculated for each year and shall vary with the real rate of return earned by the Company on the net cash flow from the Contract Area (as defined in the PSA). The calculation of APT includes a working capital adjustment reflecting the effect of the timing of actual receipt of amounts owing from TANESCO on net cash flow.

Income Taxes

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to extent they relate to items recognized directly in equity, in which case the tax is recognized in equity.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect to previous years. Where current income tax is payable, this is shown as a current tax liability. The amount of the current tax payable is the best estimate of the tax amount expected to be paid that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of carrying amounts of assets and liabilities using tax rates substantively enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available, against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Depreciation

Depreciation for non-natural gas properties is charged to earnings on a straight-line basis over the estimated useful economic lives of each class of asset. The estimated useful lives are as follows:

Leasehold improvement	Over remaining life of the lease
Computer equipment	3 years
Vehicles	3 years
Fixtures and fittings	3 years
Leased assets and right-of-use assets	Over the remaining life of the lease

Notes to the Consolidated Financial Statements cont.

3. Summary of Significant Accounting Policies cont.

Financial Instruments

All financial instruments are initially recognized at fair value on the consolidated statement of financial position. The Company has classified each financial instrument into one of the following categories: (i) fair value through the statement of comprehensive income (loss), (ii) loans and receivables, and (iii) other financial liabilities. Measurement in subsequent periods depends on the classification of the financial instrument as described below:

- Fair value through profit or loss: financial instruments under this classification include cash and cash equivalents and derivative assets and liabilities.
- Amortized cost: financial instruments under this classification include accounts receivable, investments in bonds, investments, accounts payable and accrued liabilities, dividends payable, finance lease obligations, and long-term debt.

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported on the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Financial Instruments Classification and Measurement

The Company's financial instruments include trade and other receivables, long-term receivables, trade and other liabilities and long-term loan. The Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuation in this level are those with inputs for the asset or liabilities that are not based on observable market data.

The fair value of trade and other receivables and trade and other liabilities approximate their carrying amount due to the short-term nature of those instruments. The fair value of long-term receivables also approximates their carrying amount.

The Company's long-term loan is classified as Level 2 measurements. The long-term loan bears interest at a fixed rate which is close to the current market rates and accordingly the fair market value of the long-term loan approximates the carrying value.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, term deposits and short-term highly liquid investments with the original term to maturity of three months or less, which are convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of changes in value. The fair value of cash and cash equivalents approximate their carrying amount. There are no restrictions on the movement of funds out of Tanzania.

Investments in Short-Term Bonds

Investments in short-term bonds includes highly liquid investments with the original term to maturity of 12 months or less which are convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of changes in value. The fair value of the investments in short-term bonds approximates their carrying amount. At December 31, 2021 and December 31, 2020 the Company did not have investments in short-term bonds.

3. Summary of Significant Accounting Policies cont.

Impairment of Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in earnings. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in earnings.

Leases

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

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

The lease liability is initially measured at the present value of the minimum lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate for that asset. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in estimate of the amount expected to be payable under a residual value guarantee, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Short-Term Leases and Leases of Low Value Assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a term of 12 months or less and leases of low value assets defined as less than $5,000 or less. The Company recognizes the lease payments associated with these leases as an expense when incurred, over the lease term.

Accounting Changes

The following pronouncements from the IASB became effective or were amended for financial reporting periods beginning on or after January 1, 2021.

COVID-19 Related Rent Concessions amendment to IFRS 16 has been adopted. There has been no impact on the Company.

The Interest Rate Benchmark Reform, Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). The Company has adopted the amended standards. However, the Company has contracts using US Dollar LIBOR, this rate has yet to be discontinued, and these contracts have yet to transition to an alternative rate. The Company does not expect transitioning to have any material impact on the Company's financial statements.

The following standards have been issued but are not yet effective:

- Onerous contracts – Cost of fulfilling a contract (Amendments to IAS 37).
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- Reference to the Conceptual Framework (Amendments to IFRS 3).
- Annual Improvements to IFRS Standards 2018-2020.

The Company intends to adopt these standards when they become effective and is currently evaluating the potential impact.

4. Use of Estimates and Judgments

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the accounts recognized in these consolidated financial statements.

Critical Judgments in Applying Accounting Policies:

A. Natural gas assets

The Company assesses its natural gas assets for impairment when events or circumstances indicate that the carrying amount of its assets may not be recoverable. If any indication of impairment exists, the Company performs an impairment test on the CGU, which is the lowest level at which there are identifiable cash flows. The carrying amount of the CGU is compared to its recoverable amount which is defined as the greater of its fair value less cost to sell and value in use and is subject to management estimates. These estimates include quantities of reserves and future production, future commodity pricing, development costs, operating costs, and discount rates. Any changes in these estimates may have an impact on the recoverable amount of the CGU.

B. Collectability of receivables

The Company evaluates the collectability of its receivables on the basis of payment history, frequency and predictability, as well as Management's assessment of the customer's willingness and ability to pay. Management performs impairment tests each period on the Company's current and long-term receivables.

C. Statutory taxes

The Company operates in a jurisdiction with complex tax laws and regulations, which are evolving over time. The Company has taken certain tax positions in its tax filings and these filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax impact may differ significantly from that estimated and recorded by management.

The recognition or reversal of deferred tax assets requires judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain.

Key Sources of Estimation of Uncertainty

A. Reserves

There are numerous uncertainties inherent in estimating quantities of proved and probable reserves and cash flows to be derived therefrom, including many factors beyond the control of the Company. The reserves and estimated future net cash flow from the Company's properties have been evaluated by independent petroleum engineers. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, crude oil price differentials to benchmarks, future prices of oil and natural gas, operating costs, transportation costs, cost recovery provisions and royalties, TPDC "back-in" methodology and other Government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of the Company. To date, TPDC has neither elected to back in within the prescribed notice period nor contributed any costs associated with backing in.

Reserves are integral to the amount of depletion and impairment test.

B. Cost Recovery

The Company is able to recover reasonable costs incurred on the development of the Songo Songo project out of 75% of the gross field revenue less processing and pipeline tariffs ("field net revenue"). There are inherent uncertainties in estimating when costs have been recovered as these costs are subject to Government audit and under certain circumstances a potential reassessment after the lapse of a considerable period of time.

5. Risk Management

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

A. Foreign Exchange Risk

Foreign exchange risk arises when transactions and recognized assets and liabilities of the Company are denominated in a currency that is not the US dollar functional currency.

The Company operates internationally and is exposed to foreign exchange risk arising from currency exposures to US dollars. The main currencies to which the Company has an exposure are: Tanzanian shillings, British pounds sterling, Euros and Canadian dollars.

The majority of contracts with customers are based on US dollar prices for gas delivered however the majority of invoices and receipts are in Tanzanian shillings. Invoices are priced and then converted to Tanzanian shillings at the time of invoicing however payments are based on the US dollar invoiced amount translated to shillings at the time of payment. While conversion of Tanzanian shillings into US dollars is unrestricted, the foreign exchange market for Tanzanian shillings is limited and not highly liquid, reducing the Company's ability to convert large amounts of Tanzanian shillings into US dollars at any given time. To mitigate the risk of Tanzanian shilling devaluation, the Company regularly converts Tanzanian shilling receipts into US dollars to the extent practicable taking into consideration that the majority of operating expenditures are denominated in Tanzanian shillings.

The majority of capital expenditures are denominated in US dollars. Capital stock, equity financing and any associated stock based compensation are denominated in Canadian dollars.

There are no forward exchange rate contracts in place.

A 10% increase in the US dollar against the relevant foreign currency would result in an overall increase in working capital (defined as current assets less current liabilities) of $1.8 million from $41.8 million to $43.8 million and an increase in the income before tax from $39.3 million to $41.1 million.

The sensitivity includes only outstanding foreign currency denominated monetary items and adjusts their translation at period end for a 10% change in the foreign currency rates. A 10% sensitivity rate is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates.

The following balances are denominated in foreign currency (stated in US dollars at period end exchange rates):

Balances as at December 31, 2021

$'millions	Canadian dollars	Tanzanian shillings	British pounds	Other currencies	Total
Cash	0.1	13.7	0.9	–	**14.7**
Trade and other receivables	–	8.7	–	–	**8.7**
Trade and other liabilities	(1.6)	(3.9)	–	(0.1)	**(5.6)**
Net	(1.5)	18.5	0.9	(0.1)	**17.8**

B. Commodity Price Risk

The Company negotiated industrial gas sales contracts with gas prices which, subject to certain floors and ceilings, are determined as a discount to the lowest cost alternative fuels in Dar es Salaam, namely Heavy Fuel Oil ("HFO") and coal. The price of HFO is exposed to the volatility in the market price of crude oil.

C. Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has minimal exposure to interest rates as the long-term loan has a fixed interest rate, interest rates on short-term investments are fixed and interest received on cash balances is not significant.

D. Concentration Risk

All the Company's sales are currently made in Tanzania. The sales are made to the Power sector and the Industrial sector. In relation to sales to the Power sector, the Company has a contract with Songas for the supply of gas to the Ubungo power plant, a contract with TANESCO to supply gas to some of the TANESCO power plants, and a contract with TPDC to supply gas through NNGI. The contracts with Songas, TANESCO and TPDC accounted for 60% of the Company's gross field revenue operating revenue during 2021 and $10.2 million of the short- and long-term receivables at December 31, 2021.

5. Risk Management cont.

E. 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 December 31, 2021 and 2020, loss allowance exists 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 2021 or 2020 (see Note 12).

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.

F. 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 December 31, 2021 the Company has working capital of $41.8 million which is net of $63.1 million of financial liabilities with regards to trade and other liabilities of which $29.6 million is due within one to three months, $4.9 million is due within three to six months, and $28.6 million is due within six to 12 months (see Note 14).

At the end of the year approximately 35% of the current liabilities relate to TPDC (see Note 14). The amounts due to TPDC represent its share of Profit Gas. In accordance with the terms of the PSA, TPDC is entitled to the payment of its share of Profit Gas on a quarterly basis proportional to the cash receipts during the quarter. A substantial proportion of the TPDC liability is associated with the long-term TANESCO arrears and payments to TPDC are made when cash is received for the arrears.

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

G. Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to achieve an optimal capital structure to reduce the cost of capital.

H. Country Risk

The Company has unresolved disputes with TPDC related to Cost Gas revenue, TANESCO and Songas regarding unpaid invoices, and the Tanzanian Revenue Authority ("TRA") in relation to tax disputes (see Note 21). The Company continues to rely upon its rights under the existing PSA and has initiated notices of disputes as required under the PSA and by local tax regulations to resolve outstanding issues.

6. Segment Information

The Company has one reportable industry segment which is international exploration, development and production of petroleum and natural gas. During 2021 and 2020 the Company's producing assets were entirely located in Tanzania.

7. Revenue

	Years ended December 31	
$'000	2021	2020
Industrial sector	**39,477**	34,485
Power sector	**60,445**	57,267
Gross field revenue	**99,922**	91,752
TPDC share of revenue	**(22,285)**	(19,685)
Company operating revenue	**77,637**	72,067
Current income tax adjustment	**8,385**	5,807
	86,022	77,874

The Company recognized 100% of amounts invoiced for deliveries to TANESCO as revenue during 2021 and 2020. During 2021 the Company invoiced TANESCO $23.9 million (2020: $23.3 million) for gas deliveries and received $22.9 million (2020: $43.2 million) in payments. Based on the consistent payments from TANESCO, the Company: (i) recognized all amounts invoiced for gas deliveries in 2021 and 2020 as revenue; and (ii) recognized $1.1 million during the year (2020: $19.9 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 December 31, 2021 the Company has invoiced TANESCO $5.5 million for 2022 gas deliveries and TANESCO has paid the Company $8.2 million.

8. Personnel Expenses

	Years ended December 31	
$'000	2021	2020
Employee and related costs included in:		
Production, distribution and transportation	**2,932**	3,176
General and administrative	**7,032**	6,163
	9,964	9,339
Stock based compensation (recovery) expense (Note 17)	**(576)**	1,074
	9,388	10,413

Personnel expenses include Company employees who operate the Songas facilities on behalf of Songas; these expenses are recharged to Songas.

Notes to the Consolidated Financial Statements cont.

9. Finance Income and Expense

Finance Income

	Years ended December 31	
$'000	2021	2020
Interest income	**133**	844
Investment income	**–**	305
	133	1,149

At December 31, 2021 and December 31, 2020 the Company did not have investments in short-term bonds. The $0.3 million investment income for 2020 includes interest earned of $0.3 million and amortization of the discount on the acquisition of the bonds of $ nil.

Finance Expense

	Years ended December 31	
$'000	2021	2020
Base interest expense	**5,982**	5,830
Participation interest expense	**920**	1,971
Lease interest expense	**43**	86
Interest expense	**6,945**	7,887
Net foreign exchange loss (gain)	**628**	(438)
Interest on tax assessment	**588**	–
Indirect tax	**1,826**	1,873
	9,987	9,322

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 16).

The interest on tax assessment represents the Company's share of the amount in dispute with respect to interest on depreciation disallowed by the TRA for expenditures in relation to completing well SS-10 in 2009 and 2010 and well SS-12 in 2015 and 2016. The indirect tax is for value added tax ("VAT") associated with invoices to TANESCO under the take or pay provisions within the PGSA and for interest on late payments. In 2021 a take or pay invoice of $6.7 million (2020: $6.5 million) was raised but not recognized in the financial statements as it did not meet the revenue recognition criteria with respect to assurance of collectability.

10. Income Taxes

The tax charge is as follows:

	Years ended December 31	
$'000	2021	2020
Current income tax expense	**10,192**	7,384
Deferred income tax expense	**6,534**	3,356
	16,726	10,740

Tax of $2.0 million was paid during 2021 in relation to the settlement of the prior year's tax liability (2020: $0.6 million). Installment tax payments totaling $7.3 million were made in respect of 2021 (2020: $5.3 million). These are presented as a reduction in tax payable on the consolidated statement of financial position.

Tax Rate Reconciliation

	Years ended December 31	
$'000	2021	2020
Income before tax per Consolidated Statements of Comprehensive Income	**39,298**	43,915
Less Additional Profits Tax	**(4,609)**	(4,054)
Income before statutory tax	**34,689**	39,861
Provision for income tax calculated at the statutory rate of 30%	**10,407**	11,958
Effect on income tax of:		
Administrative and operating expenses	**328**	1,959
Foreign rate difference	**651**	–
Foreign exchange loss (gain)	**1**	(258)
Stock based compensation (recovery) expense	**(68)**	186
TANESCO interest not recognized as interest income	**1,342**	1,468
Change in unrecognized tax asset	**905**	(4,796)
Changes in estimates related to prior years	**3,160**	223
	16,726	10,740

As at December 31, 2021 the loss allowance for TANESCO had resulted in an $18.6 million unrecognized deferred tax asset (December 31, 2020: $18.6 million). If this debt is ultimately not recovered, the Company will also be entitled to an $18.7 million (2020: $13.1 million) refund of VAT). As at December 31, 2021, the Company has not recognized the benefit of unused trading loss carry forwards of $7.5 million, which do not expire, as it is not probable that future taxable profits will be available against which the benefit can be utilized.

In respect of each type of temporary difference the amounts of deferred tax assets/(liabilities) recognized in the consolidated balance sheet were as follows:

	As at December 31	
$'000	2021	2020
Differences between tax base and carrying value of property, plant and equipment	**(33,244)**	(30,417)
Tax recoverable from TPDC	**(3,449)**	(3,110)
Loss allowances	**2,847**	3,357
Additional Profits Tax	**8,884**	10,946
Unrealized exchange losses/other provisions	**(81)**	715
	(25,043)	(18,509)

Notes to the Consolidated Financial Statements cont.

11. Additional Profits Tax

Under the terms of the PSA, APT is payable when the Company has recovered its costs plus a specified return out of Cost Gas revenue and Profit Gas revenue. As a result: (i) no APT is payable until the Company recovers its costs out of Additional Gas revenues plus an annual operating return under the PSA of 25% plus the percentage change in the United States Industrial Goods Producer Price Index ("PPI"); and (ii) the maximum APT rate is 55% of the Company's Profit Gas when costs have been recovered with an annual return of 35% plus the percentage change in PPI.

The timing and the effective rate of APT depends on the realized value of Profit Gas which in turn depends on the level of expenditure. The Company provides for APT by annually forecasting the total APT payable in the future as a proportion of the forecast Profit Gas over the term of the PSA. The forecast takes into account the timing of future development capital spending. As at December 31, 2021 the current portion of APT payable was estimated at $8.5 million (December 31, 2020: $11.5 million) with a long-term APT payable of $20.9 million (December 31, 2020: $24.8 million).

The effective APT rate of 17.3% (2020: 16.8%) has been applied to the Company's Profit Gas of $26.7 million (2020: $24.1 million). Accordingly, $4.6 million of APT has been recorded as APT in Consolidated Statement of Comprehensive Income for the year ended December 31, 2020 (2020: $4.1 million).

12. Current Trade and Other Receivables

	As at December 31	
$'000	2021	2020
Trade receivables		
Songas	**2,502**	2,053
TPDC	**5,603**	7,417
TANESCO	**2,042**	–
Industrial customers	**11,840**	9,362
Loss allowance	**(452)**	(452)
	21,535	18,380
Other receivables		
Songas gas plant operations	**2,827**	4,571
Songas well workover program	**3,447**	–
Other	**3,647**	6,935
Loss allowance	**(725)**	(8,006)
	9,196	3,500
	30,731	21,880

Trade Receivables Aged Analysis

	As at December 31, 2021				
$'000	Current	>30 <60	>60 <90	>90	Total
	19,442	**812**	**302**	**979**	**21,535**

	As at December 31, 2020				
$'000	Current	>30 <60	>60 <90	>90	Total
	14,608	1,424	882	1,466	18,380

12. Current Trade and Other Receivables cont.

Songas

As at December 31, 2021 Songas owed the Company $5.3 million (December 31, 2020: $6.6 million), while the Company owed Songas $1.9 million (December 31, 2020: $2.0 million). The amounts due to the Company are mainly for sales of gas of $2.5 million (December 31, 2020: $2.1 million) and for the operation of the gas plant of $2.8 million (December 31, 2020: $4.6 million) against which the Company has made a loss allowance of $0.7 million (December 31, 2020: $2.7 million). The amounts due to Songas primarily relate to pipeline tariff charges of $1.5 million (December 31, 2020: $1.7 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis.

TPDC

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

Reversal of loss allowance

	Years ended December 31	
$'000	2021	2020
Reversal of loss allowance	**(3,762)**	(20,951)
Loss allowance	**1,188**	5,337
	(2,574)	(15,614)

The reversal of loss allowance of $3.8 million (2020: $21.0 million) follows collection of: (i) TANESCO arrears of $1.1 million (2020: $19.9 million) which had been previously allowed for and represents the excess of receipts over gas sales invoiced during the year; (ii) Songas operatorship arrears of $1.9 million (2020: $1.1 million) which had been previously allowed for; and (iii) collection of $0.8 million (2020: $ nil) of indirect taxes related to the receipt of funds for the TANESCO 2016 take or pay invoice that had been previously allowed for.

The loss allowance of $1.2 million is for: (i) $0.5 million being the amount in dispute with the Tanzanian Revenue Authority ("TRA") with respect to withholding tax on services performed outside Tanzania by non-resident persons in 2010 and 2015-16; and (ii) $0.7 million with respect to impairment of Swala convertible preference shares (see Note 24). The loss allowance for 2020 is for a receivable from the TRA who issued an Agency Notice for $5.3 million obligating the Company's bank in Tanzania to release funds in favor of the TRA. In 2021 the Tanzanian Court of Appeal ("CAT") ruled in favor of the TRA on the Company's appeal filed in 2020. The Company, with advice from its legal counsel, decided not to proceed further on this matter.

13. Capital Assets

$'000	Natural gas interests	Office and other	Right-of-use	Total
Costs				
As at December 31, 2020	241,280	2,894	1,084	245,258
Additions	26,596	14	–	26,610
As at December 31, 2021	**267,876**	**2,908**	**1,084**	**271,868**
Accumulated depletion and depreciation				
As at December 31, 2020	132,588	2,864	343	135,795
Additions	15,779	37	290	16,106
As at December 31, 2021	**148,367**	**2,901**	**633**	**151,901**
Net book values				
As at December 31, 2021	**119,509**	**7**	**451**	**119,967**

Notes to the Consolidated Financial Statements cont.

13. Capital Assets cont.

$'000	Natural gas interests	Office and other	Right-of-use	Total
Costs				
As at December 31, 2019	214,163	2,870	1,665	218,698
Additions	27,117	24	80	27,221
Disposals	–	–	(661)	(661)
As at December 31, 2020	241,280	2,894	1,084	245,258
Accumulated depletion and depreciation				
As at December 31, 2019	117,758	2,770	189	120,717
Additions	14,830	94	397	15,321
Disposals	–	–	(243)	(243)
As at December 31, 2020	132,588	2,864	343	135,795
Net book values				
As at December 31, 2020	108,692	30	741	109,463

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 December 31, 2021 the estimated future development costs required to bring the total proved reserves to production were $26.8 million (December 31, 2020: $34.2 million). During the year the Company recorded depreciation of $0.3 million (2020: $0.1 million) in general and administrative expenses.

Right-of-use assets

$'000	
As at December 31, 2020	741
Depreciation	(290)
As at December 31, 2021	**451**
As at December 31, 2019	1,476
Additions	80
Disposals	(418)
Depreciation	(397)
As at December 31, 2020	741

13. Capital Assets cont.

Lease liabilities

$'000	
As at December 31, 2020	684
Lease interest expense	43
Lease payments	(319)
As at December 31, 2021	**408**
As at December 31, 2019	1,411
Additions	80
Disposals	(125)
Lease interest expense	86
Lease foreign currency translation difference	(9)
Lease payments	(759)
As at December 31, 2020	684

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 (2020: $0.7 million), $0.2 million (2020: $0.3 million) is current and is presented in trade and other liabilities.

14. Trade and Other Liabilities

	As at December 31	
$'000	2021	2020
Songas	**1,899**	2,062
Other trade payables	**3,179**	2,573
Trade payables	**5,078**	4,635
TPDC Profit Gas entitlement, net	**21,911**	25,570
Deferred income – take or pay contracts	**5,215**	–
Accrued liabilities	**14,572**	9,082
	46,776	39,287

TPDC share of Profit Gas

	As at December 31	
$'000	2021	2020
TPDC share of Profit Gas	**27,994**	30,405
Less "Adjustment Factor"	**(6,083)**	(4,835)
TPDC share of Profit Gas entitlement	**21,911**	25,570

Under the PSA revenue sharing mechanism, the Company adjusts TPDC's Profit Gas share by the "Adjustment Factor". The Adjustment Factor is equal to the amount necessary to fully pay and discharge the PAET liability for taxes on income derived from petroleum operations. A significant percentage of the settlement of the $21.9 million liability to TPDC is dependent on receipt of payment from TANESCO for long-term arrears that have been fully allowed for.

Notes to the Consolidated Financial Statements cont.

15. Long-term Receivables

	As at December 31	
$'000	2021	2020
Amounts invoiced to TANESCO	**119,168**	111,234
Trade receivables – TANESCO	**(2,042)**	–
Unrecognized amounts not meeting revenue recognition criteria[1]	**(90,634)**	(83,685)
Loss allowance	**(26,492)**	(27,549)
Net TANESCO receivable	**–**	–
VAT – Songas workovers	**2,205**	2,205
Lease deposit	**10**	9
	2,215	2,214

[1] The amount includes 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 2020. In 2021 the Company invoiced TANESCO $6.7 million (2020: $6.5 million) under the take or pay provision within the PGSA; this invoice has not been recognized as it does not meet revenue recognition criteria with respect to assurance of collectability.

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

16. 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 December 31	
$'000	2021	2020
Loan principal	**55,240**	55,240
Financing costs	**(637)**	(994)
Current portion of long-term loan	**(5,000)**	–
	49,603	54,246

17. 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 takeover 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 December 31					
	2021			2020		
Number of shares	Authorised (000)	Issued (000)	Amount ($'000)	Authorised (000)	Issued (000)	Amount ($'000)
Class A Shares	**50,000**	**1,750**	**983**	50,000	1,750	983
Class B Shares	**100,000**	**18,203**	**46,471**	100,000	24,388	62,260
First preference shares	**100,000**	**–**	**–**	100,000	–	–
Total	**250,000**	**19,953**	**47,454**	250,000	26,138	63,243

During Q1 2021 the Company repurchased and canceled 6,153,846 Class B Shares at a weighted average price of CDN$6.50 per Class B Share under a substantial issuer bid. This resulted in an aggregate purchase of CDN$40.0 million of Class B Shares representing 25.2% of the Company's issued and outstanding Class B Shares and 23.5% of the total number of the Company's issued and outstanding shares. Total cash payments of $32.0 million were applied to the capital stock and accumulated income accounts. All issued capital stock is fully paid.

On June 21, 2021 the Company commenced a normal course issuer bid ("NCIB") to purchase Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. As at December 31, 2021, 30,900 Class B Shares have been purchased by the Company pursuant to the NCIB at an average price per Class B Share of CDN$5.17. As at December 31, 2021, 15,100 of the purchased Class B Shares were canceled by the Company.

Changes in Stock Appreciation Rights ("SARs")

	2021		2020	
	SARs (000)	Exercise price (CDN$)	SARs (000)	Exercise price (CDN$)
Outstanding as at January 1	**1,242**	**3.87 to 6.65**	2,322	2.30 to 6.65
Issued	**–**	**–**	160	5.02
Exercised	**(413)**	**5.00**	(517)	5.00
Exercised	**–**	**–**	(120)	3.02
Exercised	**–**	**–**	(30)	3.87
Exercised	**–**	**–**	(30)	2.30
Forfeited	**(83)**	**5.00**	(317)	5.00
Forfeited	**–**	**–**	(118)	5.02
Forfeited	**–**	**–**	(108)	6.65
Outstanding as at December 31	**746**	**3.87 to 6.65**	1,242	3.87 to 6.65

Notes to the Consolidated Financial Statements cont.

17. Capital Stock cont.

The number outstanding, the weighted average remaining life and weighted average exercise prices of SARs at December 31, 2021 were as follows:

Exercise price (CDN$)	Number outstanding (000)	Weighted average remaining contractual life (years)	Number exercisable (000)	Weighted average exercise price (CDN$)
3.87	60	1.00	30	3.87
5.00 to 6.65	686	1.04	227	5.19
3.87 to 6.65	**746**	**2.03**	**257**	**5.08**

Change in Restrictive Stock Units ("RSUs")

	2021		2020	
	RSUs (000)	Exercise price (CDN$)	RSUs (000)	Exercise price (CDN$)
Outstanding as at January 1	**133**	**0.01**	235	0.01
Issued	**–**	**0.01**	20	0.01
Exercised	**(48)**	**0.01**	(78)	0.01
Forfeited	**(9)**	**0.01**	(44)	0.01
Outstanding as at December 31	**76**	**0.01**	133	0.01

The number outstanding, the weighted average remaining life and weighted average exercise prices of RSUs at December 31, 2021 were as follows:

Exercise price (CDN$)	Number outstanding (000)	Number exercisable (000)	Weighted average remaining contractual life (years)
0.01	**76**	**24**	**1.08**

As SARs and RSUs are settled in cash, they are revalued 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 December 31, 2021, the following assumptions have been made: a risk free rate of interest of 1.0% (December 31, 2020: 1.0%), stock volatility of 26.6% to 37.8% (December 31, 2020: 31.0% to 41.1%), 5% forfeiture (December 31, 2020: 5%) and a closing stock price of CDN$5.40 (December 31, 2020: CDN$6.33) 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 December 31	
$'000	2021	2020
SARs	**727**	1,683
RSUs	**326**	496
	1,053	2,179

As at December 31, 2021 a total accrued liability of $1.1 million (December 31, 2020: $2.2 million) has been recognized in relation to SARs and RSUs which is included in other payables. The Company recognized a recovery for the year of $0.6 million (2020: expense of $1.1 million) as stock based compensation.

17. Capital Stock cont.

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 14, 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
November 19, 2020	December 31, 2020	January 15, 2021	0.08
September 17, 2020	September 30, 2020	October 15, 2020	0.08
June 22, 2020	June 30, 2020	July 15, 2020	0.06
February 25, 2020	March 31, 2020	April 30, 2020	0.06

18. Earnings Per Share

	As at December 31	
$'000	2021	2020
Outstanding shares		
Weighted average number of Class A and Class B Shares, basic	**20,317**	27,818
Weighted average number of Class A and Class B Shares, diluted	**20,317**	27,818

The calculation of basic earnings per share is based on a net income attributable to shareholders for the year of $16.4 million (2020: $27.8 million) and a weighted average number of Class A and Class B Shares outstanding during the period of 20,317,407 (2020: 27,817,531).

19. 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 year ended December 31, 2021 fees for services provided by this firm totaled $0.3 million (2020: $1.0 million).

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

20. 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 257 Bcf as at December 31, 2021 (December 31, 2020: 235 Bcf). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the term of the Protected Gas delivery obligation to July 2024.

Terms of the Gas Agreement were modified by the Amended and Restated Gas Agreement ("ARGA") which was 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.

Notes to the Consolidated Financial Statements cont.

20. Contractual Obligations and Committed Capital Investments cont.

Re-Rating Agreement

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

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

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

Portfolio Gas Supply Agreement ("PGSA")

On June 17, 2011, the PGSA was signed (term to June 2023) between TANESCO (as the buyer) and the Company and TPDC (collectively as the seller). TANESCO requested a change to the PGSA MDQ in accordance with clause 7.6(b) which PAET and TPDC approved effective January 29, 2018. The seller is obligated, subject to infrastructure capacity, to sell a maximum of approximately 26 MMcfd (previously 36 MMcfd) for use in any of TANESCO's current power plants, except those operated by Songas at Ubungo. Under the agreement, the basic wellhead price of approximately $2.98/mcf increased to $3.04/mcf on July 1, 2017, to $3.10/mcf on July 1, 2019, $3.14/mcf on July 1, 2020 and $3.20/mcf on July 1, 2021. Previously under the PGSA any sales in excess of 36 MMcfd were subject to a 150% increase in the basic wellhead gas price. On December 22, 2018 a side letter amendment to the PGSA was agreed with TPDC to allow PGSA volumes up to a maximum monthly average volume of 35 MMcfd to temporarily flow through the NNGI. The temporary arrangement was terminated in September 2019 once the refrigeration unit became fully operational and all PGSA volumes were again processed through the Songas Infrastructure.

Long-term Gas Sales Agreement ("LTGSA")

On May 14, 2019 the Company and TPDC signed the LTGSA for an initial delivery of 20 MMcfd through the NNGI, at a price of $3.10/MMbtu as at January 1, 2019, (escalating 2% per annum) exclusive of any processing and transportation tariff associated with the NNGI. The LTGSA was amended on September 24, 2019 to increase the volumes supplied through the NNGI up to a maximum daily quantity of 30 MMcfd. In 2020 parties established a 12-month renewable agreement for the supply of volumes above 30 MMcfd on an ad hoc basis, allowing TPDC to meet fluctuating demand and compensate for shortfalls in production from their Madimba plant without being penalized due to a higher, fixed contractual limit and the subsequent take-or-pay penalties should the demand reduce again. The agreement has allowed the Company to supply volumes in excess of 50 MMcfd on occasion, increasing average sales volumes and revenues.

All volumes above 20 MMcfd are supplied on a best endeavors basis until compression facilities are added to the Songas facilities in Q1 2022.

Leases

The Company has three office rental agreements, two in Dar es Salaam, Tanzania, and one in London, England. An agreement for the office in Dar es Salaam was entered into on November 1, 2019 and expires on October 31, 2023 at an annual rent of $0.4 million. Another agreement for the downstream office in Dar es Salaam was entered into on May 1, 2018 and extended on November 1, 2020 to June 30, 2022 at an annual rent of $0.04 million. On November 15, 2021 the Company leased new office premises in London for a period of 12 months at a cost of $0.1 million per annum. The cost of the London office lease is recognized in the general and administrative expenses.

Capital Commitments

Tanzania

At the date of this report, the Company's significant outstanding contractual commitments are in relation to the compression contract, originally priced at $38.0 million which has increased through variations to $41.7 million and the upcoming workover program originally priced at $21.4 million which has increased through variations to $31.6 million. As of December 31, 2021, $40.5 million of the compression contract has been paid, the remaining capital expenditures under this contract of $1.2 million will be paid in 2022. As of December 31, 2021, $13.9 million of the workover contracts has been paid, the remaining capital expenditures of $17.7 million will be paid in 2022.

21. 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.

TPDC Back-in

TPDC has the right under the PSA to "back in" to the Songo Songo field development and convert this into a carried working interest in the PSA. The current terms of the PSA require TPDC to provide formal notice in a defined period and contribute a proportion of the costs of any development, sharing in the risks in return for an additional share of the gas. To date, TPDC has not contributed towards any costs.

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

					As at December 31	
Amounts in $'millions					2021	2020
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**[1]	1.6
Withholding tax ("WHT")	2005-09	WHT on services performed outside of Tanzania by non-resident persons.	**1.0**	**0.6**	**1.6**[2]	8.7
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 income taxes paid (2015 to 2017).	**34.2**	**17.5**	**51.7**[3]	52.1
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**	**1.2**	**1.4**[4]	6.8
			35.7	**19.3**	**55.0**	69.2

Notes to the Consolidated Financial Statements cont.

21. Contingencies cont.

Taxation cont.

During Q2 2021 the Company paid the TRA $1.8 million as a deposit against the disputed taxes including PAYE tax, WHT, income tax and VAT for the years 2012-16, an amount agreed upon in order for TRA to admit the outstanding tax objections. In Q3 2021, the Court of Appeal of Tanzania ("CAT") delivered its 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 2020 the TRA issued an Agency Notice for $5.3 million obligating PAET's commercial bank in Tanzania to release funds in favor of the TRA with regards to the output VAT on SSI operatorship services (2008-10). In Q3 2020 the Company filed an appeal with the CAT and recorded the $5.3 million as other receivables and fully allowed for the amount on the Company's financials. Subsequently, during Q3 2021 the CAT ruled in favor of the TRA on the Company's appeal. Management, with advice from its legal counsel, decided not to proceed further on this matter.

During Q4 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.

In Q4 2021 the Company recorded an allowance of $0.6 million with respect to interest on depreciation of disallowed costs of completion of wells SS-10 (2009-10) and SS-12 (2015-16). In addition, the Company recorded an allowance of $0.5 million with respect to WHT on services performed outside Tanzania by non-resident persons (2010 and 2015-16). These disputes are no longer represented in the table above.

In Q4 2021, the Company recorded an additional provision of approximately $2.2 million.

In Q4 2021, further to issuing its objections to TRA's 2015-16 assessments, the Company received determination letters whereby the TRA agreed to drop their claims with regards to WHT on interest on the IFC Loan and management fees (2015-16) and PAYE on grossed up salaries (2015-16) in the amounts of $0.9 million and $1.4 million, respectively. The aforementioned disputes are no longer represented in the table above. Additionally, with the advice from its legal and tax counsels, it was established that four of the assessments with respect to 2011 ($0.2 million), 2013 ($0.2 million), 2014 ($3.3 million) and 2015-16 ($0.4 million) income tax, which were previously presented as contingencies, were overridden by four other assessments, effectively presenting duplicating assessments, for the respective years of income. This has now been amended accordingly in the taxation contingency table above.

Subsequent to December 31, 2021, 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 a status review in May 2022. In addition, the Company paid the TRA $0.7 million as a deposit against disputed income tax for the year of income of 2017.

During 2020, the TRA conducted audits of 2017 and 2018 and issued two assessments with regards to VAT ($1.2 million) and WHT ($0.01 million). The Company has conceded to the TRA with respect to the WHT assessment ($0.01 million) and a portion of the VAT assessment ($0.06 million). However, the Company has objected to the incorrect imposition of interest on VAT decreasing adjustments on TANESCO payments ($1.1 million) and disallowing input VAT claimed in certain services ($0.1 million). No final assessments have been issued to date with respect to corporation tax, excise duty or payroll tax for 2017 and no preliminary assessment has yet been received for 2018. During 2020 the Company filed an application for judicial review at the CAT with regards to the 2008-10 PAYE case ($0.3 million). During the year, again acting under instructions from the TRA, PAET's commercial bank in Tanzania transferred the full principal tax amount in dispute ($0.3 million) to the TRA. The Company has filed an appeal for review with the CAT.

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.

21. Contingencies cont.

Taxation cont.

The process of appealing assessments issued by the TRA starts by initially filing an appeal with the TRA. If this is not successful, claims can be taken to higher authorities starting with the TRAB, followed by an appeal to the Tax Revenue Appeals Tribunal ("TRAT") and finally to the CAT. Below is a summary of the status of the various assessments:

(1) (a) 2008-10 ($0.3 million): In 2020, the Company lost an appeal with CAT on the principal amount of PAYE tax and filed an application for judicial review at CAT. The TRA instructed PAET's commercial bank to transfer the full principal amount in dispute to TRA;

(2) (a) 2005-2009 ($1.6 million): In 2018 the CAT ruled in favor of the Company that no WHT was required on services performed outside Tanzania by non-resident persons. It is unknown whether TRA will file an application objecting to the CAT ruling;

(3) (a) 2008 ($0.6 million): The Company objected to a TRA assessment that did not recognize a tax loss carried forward and is awaiting a response;

(b) 2009 ($0.8 million): The Company objected to an amended assessment from the TRA for being time-barred and arbitrary and is awaiting a TRA response;

(c) 2011 ($1.7 million): The Company is awaiting a hearing at the TRAT following the TRAB ruling in favor of the TRA ($1.7 million);

(d) 2012 ($13.6 million): The Company objected to the TRA assessments with respect to understated revenue, timing of deductibility of capital expenditures, expenses and tax on repatriated income. Following expiry of the statutory deadline for the TRA to respond to its objection, the Company filed an appeal at the TRAB and is awaiting a hearing;

(e) 2013 ($9.3 million): The Company objected to two assessments as being time-barred and without merit ($7.4 million) and tax on repatriated income ($7.4 million) and is awaiting the TRA's response;

(f) 2014 ($8.0 million): The TRA issued two assessments for corporation tax ($4.9 million) and tax on repatriated income ($3.1 million). The Company field objections to the assessments and is awaiting the TRA's response;

(g) 2015-16 ($11.2 million): The TRA issued two assessments for corporation tax ($5.8 million) and tax on repatriated income ($5.4 million). The Company appealed to the TRAB against the assessments following the TRA failure to determine the matters within the statutorily allowed period and is awaiting a response;

(h) 2017-18 ($6.5 million): The TRA issued an assessment for corporation tax including questioning the Company's methodology of grossing up already paid corporation tax ($6.4 million) and raising the issue of imposing interest on deemed delayed payment ($0.1 million). The Company filed an objection and is awaiting the TRA's response;

(4) (a) 2012-16 ($0.2 million): The Company has filed an objection to a TRA assessment with respecting to disallowing VAT on certain services and is awaiting a response;

(b) 2017-18 ($1.2 million) The Company has filed an objection to a TRA assessment and is awaiting a response. The Company has objected incorrect imposition of interest on VAT decreasing adjustments in respect of delayed TANESCO payment ($1.1 million) and disallowing input VAT claimed in certain services ($0.1 million).

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.

Notes to the Consolidated Financial Statements cont.

22. Directors' and Officers' Emoluments

$'000	Year	Base	Bonus	Stock based compensation expense	Total
Directors	**2021**	**500**	**–**	**–**	**500**
Directors	2020	514	–	157	671
Officers	**2021**	**1,316**	**259**	**196**	**1,771**
Officers	2020	1,465	472	285	2,222

The table above provides information on compensation relating to the Company's officers and Directors. Three officers (year ended December 31, 2020: five) and three Non-Executive Directors (year ended December 31, 2020: six) comprised the key management personnel during the year ended December 31, 2021.

23. Change in Non-Cash Operating Working Capital

	As at December 31	
$'000	2021	2020
Increase in trade and other receivables	**(11,143)**	(1,654)
(Increase) decrease in prepayments	**(235)**	5,854
Increase (decrease) in trade and other liabilities	**7,172**	(9,892)
Decrease in APT	**(11,545)**	(11,939)
(Decrease) increase in tax payable	**880**	1,455
(Increase) decrease in long-term receivable	**(1)**	36
	(14,872)	(16,140)

24. 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 December 31, 2021, the Company has not received any distributions or recorded any amount receivable related to the Preference Shares.

Swala is obligated to redeem 20% of the Preference Shares for cash annually starting from December 31, 2021 until all shares are redeemed. If at any time Swala does not redeem in cash the required number of Preference Shares, Swala is obligated to redeem the Preference Shares by transferring and returning the Class A common shares of PAEM sold to Swala. The aggregate value of these Class A common shares will equal the amount of any outstanding redemption. As of December 31, 2021, the Company recorded $0.7 million as a loss allowance with respect to Preference Shares.

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

	As at December 31	
$'000	2021	2020
Balance, beginning of year	**1,523**	163
Net income attributable to non-controlling interest	**1,593**	1,360
Balance, end of year	**3,116**	1,523

25. Subsequent Events

On February 24, 2022 the Company declared a dividend of CDN$0.10 per share on each of its Class A Shares and Class B Shares for a total of $1.6 million to holders of record as of March 31, 2022 paid on April 15, 2022.

Corporate Information

Board of Directors

Jay Lyons
Executive Director and Chief Executive Officer
Vancouver, Canada

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

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

Linda Beal
Non-Executive Director
London, UK

Advisor to the Board and PAET

Lloyd Herrick
Director, PAET
Calgary, Canada

Officers

Jay Lyons
Chief Executive Officer
Vancouver, Canada

Lisa Mitchell
Chief Financial Officer
London, UK

Andrew Hanna
Managing Director, PAET
Surrey, UK

Operating Office

PanAfrican Energy Tanzania Limited
Oyster Plaza Building, 5th Floor,
Haile Selassie Road
P.O. Box 80139, Dar es Salaam Tanzania
Tel: + 255 22 2138737
Fax: + 255 22 2138938

Registered Office

Orca Energy Group Inc.
Vistra Corporate Service Centre
Wickhams Cay II,
Road Town Tortola
British Virgin Islands, VG1110

Investor Relations

Jay Lyons
Chief Executive Officer
jlyons@orcaenergygroup.com

Lisa Mitchell
Chief Financial Officer
lmitchell@orcaenergygroup.com

International Subsidiaries

PanAfrican Energy Tanzania Limited
Oyster Plaza Building, 5th Floor
Haile Selassie Road
P.O. Box 80139, Dar es Salaam Tanzania
Tel: + 255 22 2138737
Fax: + 255 22 2138938

PAE PanAfrican Energy Corporation
3rd Floor, Rogers House,
5 President John Kennedy Street
Port Louis,
Mauritius
Tel: + 230 207 8888
Fax: + 230 207 8833

Engineering Consultants

McDaniel & Associates Consultants Ltd.
Calgary, Canada

Auditors

KPMG LLP
Calgary, Canada

Website

orcaenergygroup.com

Lawyers

Burnet, Duckworth & Palmer LLP
Calgary, Canada

Transfer Agent

AST Trust Company
Calgary, Canada

Design and Production
www.carrkamasa.co.uk
ckd