

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 issued 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 authorized, 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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (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.



Jay Lyons
Interim Chief Executive Officer
April 21, 2021



Blaine E. Karst
Chief Financial Officer
April 21, 2021

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, 2020 and December 31, 2019
- 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, 2020 and December 31, 2019, 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 filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

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 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.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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.

Independent Auditors' Report continued

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.



Chartered Professional Accountants

Calgary, Canada

April 21, 2021

Consolidated Statements of Comprehensive Income

\$'000	Note	Years ended December 31	
		2020	2019
Revenue	7	77,874	85,595
Production, distribution and transportation		11,904	11,865
Net production revenue		65,970	73,730
Operating expenses			
General and administrative	8	13,592	14,397
Stock based compensation	17	1,074	2,455
Depletion	13	14,830	15,005
Reversal of loss allowance for receivables	12	(15,614)	(11,044)
Finance income	9	(1,149)	(2,865)
Finance expense	9	9,322	9,866
Income before tax		43,915	45,916
Income tax expense – current	10	7,384	10,657
Income tax expense – deferred	10	3,356	2,326
Additional Profits Tax	11	4,054	6,587
Net income		29,121	26,346
Net income attributable to non-controlling interest	24	1,360	1,628
Net income attributable to shareholders		27,761	24,718
Foreign currency translation gain from foreign operations		(39)	(38)
Comprehensive income		27,800	24,756
Net income attributable to shareholders per share (\$)			
Basic and diluted	18	1.00	0.71

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Financial Position

\$'000	Note	As at December 31	
		2020	2019
ASSETS			
Current assets			
Cash and cash equivalents		104,190	93,899
Investment in short-term bonds	9	-	44,756
Trade and other receivables	12	21,880	22,167
Prepayments		898	6,752
		126,968	167,574
Non-current assets			
Long-term receivables	15	2,214	2,250
Investments	24	3,967	3,967
Capital assets	13	109,463	97,981
		115,644	104,198
Total assets		242,612	271,772
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	14	39,287	48,161
Tax payable		1,956	501
Current portion of Additional Profits Tax	11	11,489	11,940
		52,732	60,602
Non-current liabilities			
Deferred income taxes	10	18,509	15,153
Lease liabilities	13	423	1,129
Long-term loan	16	54,246	54,057
Additional Profits Tax	11	24,830	32,264
		98,008	102,603
Total liabilities		150,740	163,205
SHAREHOLDERS' EQUITY			
Capital stock	17	63,243	84,099
Contributed surplus		-	4,181
Accumulated other comprehensive loss		(171)	(210)
Accumulated income		27,277	20,334
Non-controlling interest	24	1,523	163
		91,872	108,567
Total equity and liabilities		242,612	271,772

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 21, 2021.



Director



Director

Consolidated Statements of Cash Flows

\$'000	Note	Years ended December 31	
		2020	2019
OPERATING ACTIVITIES			
Net Income		29,121	26,346
Adjustment for:			
Depletion and depreciation	13	15,321	15,329
Loss on disposal of lease		293	-
Indirect tax	9	1,873	1,298
Stock based compensation	17	1,074	2,455
Deferred income taxes	10	3,356	2,326
Additional Profits Tax	11	4,054	6,587
Unrealized loss on foreign exchange		(334)	(84)
Interest expense	9	7,887	8,279
Change in non-cash operating working capital	23	(16,140)	(27,663)
Net cash flows from operating activities		46,505	34,873
INVESTING ACTIVITIES			
Capital expenditures	13	(27,036)	(4,285)
Proceeds from sale of investments in bonds, net	9	44,756	22,081
Net cash from investing activities		17,720	17,796
FINANCING ACTIVITIES			
Long-term loan repayment	16	-	(4,760)
Lease payments	13	(759)	(254)
Substantial issuer bid	17	(38,170)	-
Normal course issuer bid	17	(2,149)	(4,547)
Interest paid	9	(7,887)	(8,431)
Dividends paid to shareholders	17	(5,443)	(4,476)
Dividends paid to non-controlling interest	24	-	(952)
Net cash used in financing activities		(54,408)	(23,420)
Increase in cash		9,817	29,249
Cash and cash equivalents at the beginning of the year		93,899	64,660
Effect of change in foreign exchange on cash for the year		474	(10)
Cash and cash equivalents at the end of the year		104,190	93,899

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

\$'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

\$'000	Capital stock	Contributed surplus	Accumulated other comprehensive loss	Accumulated income	Non- controlling Interest	Total
Note	17			17	24	
Balance as at December 31, 2018	86,508	6,319	(248)	1,636	(513)	93,702
Share repurchase	(2,409)	(2,138)	-	-	-	(4,547)
Dividend declared	-	-	-	(6,020)	-	(6,020)
Foreign currency translation adjustment on foreign operations	-	-	38	-	-	38
Net income	-	-	-	24,718	1,628	26,346
Non-controlling interest dividend declared and paid	-	-	-	-	(952)	(952)
Balance as at December 31, 2019	84,099	4,181	(210)	20,334	163	108,567

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

General Information

Orca Energy Group Inc. (formerly Orca Exploration Group Inc.) was incorporated on April 28, 2004 under the laws of the British Virgin Islands with registered offices located at PO Box 146, Road Town, Tortola, British Virgin Islands, VG110. The Company produces and sells natural gas to the power and industrial sectors in Tanzania and the name change reflects the Company's focus on developing and producing proven gas resources.

The consolidated financial statements of the Company as at and for the year ended December 31, 2020 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 21, 2021. The Company is controlled by Shaymar Limited who is the registered holder of 24.6% of the equity and controls 71.4% of the total votes of the Company. The shares are held in a trust that is independently managed for the beneficiaries.

1. Nature of Operations

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

The PSA defines gas in the Songo Songo field as "Protected Gas" and "Additional Gas". The "Protected Gas" is owned by TPDC and is sold under a 20-year gas agreement until July 2024 ("Gas Agreement") to Songas Limited ("Songas"). 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 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 currently supplies 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 and Additional Gas to TPDC who in turn generate and sell power to TANESCO.

The Company 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 for the generation of power, 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"). The comparative consolidated statement of cash flows for the year ended December 31, 2019 was adjusted for presentation correction. The "Proceeds from sale of investment in bonds, net" of \$22.1 million was reclassified from financing activities to investing activities.

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.

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.

Notes to the Consolidated Financial Statements continued

2. Basis of Preparation continued

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

In the year ended December 31, 2020 global oil prices declined significantly as a result of reduced demand driven by the recent coronavirus pandemic ("COVID-19") and concerns of excess supply resulting from failed negotiations between OPEC and other countries. As of now, there remains a considerable uncertainty regarding the duration and extent of oil demand destruction from the COVID-19 pandemic. Although the Company's production and reserves are entirely comprised of gas, the current challenging economic climate has the potential to have significant adverse impacts on the Company, including, but not limited to:

- potential material declines in revenue and cash flows due to reduced commodity prices,
- potential declines in future revenue, which could result in increased impairment charges on long-term assets,
- potential increased risk of non-performance by the Company's customers which could materially increase collection risk of accounts receivable and customer defaults on contracts,
- potential increased risk of non-performance by the Company's suppliers impacting timing for delivery of equipment and supplies delaying implementation of key projects,
- potential prolonged demand reduction which could negatively impact the Company's ability to maintain liquidity, and
- potential impact on overall operating results and financial position.

There has been a decrease in industrial sales but no significant impact on Company operations to date due to COVID-19 however the current situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company are not known at this time. Estimates and judgments made by management in the preparation of these consolidated financial statements are subject to a higher degree of measurement uncertainty during this volatile period. The current volatility in commodity prices and uncertainty regarding the timing for recovery creates inherent challenges with the preparation of financial forecasts.

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 pretax 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.

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.

Notes to the Consolidated Financial Statements continued

3. Summary of Significant Accounting Policies continued

Revenue Recognition, Production Sharing Agreements and Royalties

Pursuant to the terms of the PSA, the Company has exclusive rights to (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 (see Note 7). 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, 2020, future revenues from take or pay provisions of the LTGSA extending through 2026 are approximately \$0.7 million, of which approximately \$0.4 million is expected to be recognized in 2021.

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).

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 2019 and 2020 the Company recognized 100% of amounts invoiced for TANESCO gas deliveries in revenue as payments from TANESCO for the past four years have consistently been higher than amounts invoiced for gas deliveries.

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 counter party. 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 six years.

3. Summary of Significant Accounting Policies continued

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

The Company is liable for Tanzanian income tax on the income for the year; this comprises current and deferred tax. Where current income tax is payable, this is shown as a current tax liability. Deferred tax is provided using the balance sheet 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

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.

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 approximates 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.

Notes to the Consolidated Financial Statements continued

3. Summary of Significant Accounting Policies continued

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 USD 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 will become effective or were amended for financial reporting periods beginning on or after January 1, 2020.

On October 22, 2018, the IASB issued "Definition of a Business (Amendments to IFRS 3)" aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets.

On October 31, 2018, the IASB issued "Definition of Material (Amendments to IAS 1 and IAS 8)" to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves.

The amendments to IFRS 3 amendments to IAS and IAS 8 are effective for annual reporting periods beginning on or after January 1, 2020 and apply prospectively and have had no impact on the Company.

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. Fair Value of Stock Based Compensation

All SARs and RSUs granted by the Company are required to be measured at their fair value for each reporting period. In assessing the fair value of the equity based compensation, estimates have to be made as to (i) the volatility in share price, (ii) the risk free rate of interest, (iii) the level of forfeiture, and (iv) the dividend yield.

C. 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 in exceptional circumstances a potential reassessment after the lapse of a considerable period of time.

D. Financial Instruments Classification and Measurement

The Company's financial instruments include trade and other receivables, long-term receivables, trade and other payables 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 payables 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.

Notes to the Consolidated Financial Statements continued

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 \$1.5 million from \$74.2 million to \$75.7 million and an increase in the income before tax from \$43.9 million to \$45.4 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, 2020

\$'millions	Canadian dollars	Tanzanian shillings	Euros	Other currencies	Total
Cash	0.9	10.6	0.1	3.1	14.7
Trade and other receivables	-	3.1	-	-	3.1
Trade and other payables	(1.6)	(1.0)	-	(0.2)	(2.8)
Net	(0.7)	12.7	0.1	2.9	15.0

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 62% of the Company's gross field revenue operating revenue during 2020 and \$9.5 million of the short and long-term receivables at December 31, 2020.

5. Risk Management continued

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, 2020 and 2019, 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 2020 or 2019 (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, 2020 the Company has working capital of \$74.2 million which is net of \$52.7 million of financial liabilities with regards to trade and other payables of which \$25.6 million is due within one to three months, \$ nil is due within three to six months, and \$27.1 million is due within six to twelve months (see Note 14).

At the end of the year approximately 48% of the current liabilities relate to TPDC (see Note 14). The amounts due to TPDC represent its share of Profit Gas and the current portion of Additional Profit Tax; 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 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 in 2020 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 the 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 2020 the Company's producing and exploration assets were entirely located in Tanzania. In 2019 the Company relinquished exploration and appraisal interests in Italy and the companies used for the Italian operations were wound up in Q2 2020.

Notes to the Consolidated Financial Statements continued

7. Revenue

\$'000	Years ended December 31	
	2020	2019
Industrial sector	34,485	38,530
Power sector	57,267	62,329
Gross field revenue	91,752	100,859
TPDC share of revenue	(19,685)	(28,334)
Company operating revenue	72,067	72,525
Current income tax adjustment	5,807	13,070
	77,874	85,595

The Company recognized 100% of amounts invoiced for deliveries to TANESCO as revenue during 2020 and 2019. During 2020 the Company invoiced TANESCO \$23.3 million (2019: \$50.6 million) for gas deliveries and received \$43.2 million (2020: \$61.6 million) in payments. Based on the consistent payments from TANESCO, the Company: (i) recognized all amounts invoiced for gas deliveries in 2020 as revenue; and (ii) recognized \$19.9 million during the year (2019: \$11.0 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, 2020 the Company has invoiced TANESCO \$6.5 million for 2021 gas deliveries and TANESCO has paid the Company \$7.9 million.

8. Personnel Expenses

\$'000	Years ended December 31	
	2020	2019
Employee and related costs included in:		
Production, distribution and transportation	3,176	3,036
General and administrative	6,163	6,188
	9,339	9,224
Stock based compensation (Note 17)	1,074	2,455
	10,413	11,679

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

9. Finance Income and Expense**Finance Income**

\$'000	Years ended December 31	
	2020	2019
Interest income	844	666
Investment income	305	2,199
	1,149	2,865

At December 31, 2020 the Company did not have investments in short-term bonds (December 31, 2019: \$44.8 million invested with maturity dates from February 2020 to July 2020 and a range of interest rates from 1.375% to 2.75%). The \$0.3 million investment income for the year (2019: \$2.2 million) includes interest earned of \$0.3 million (2019: \$1.4 million) and amortization of the discount on the acquisition of the bonds of \$ nil (2019: \$0.8 million).

9. Finance Income and Expense continued**Finance Expense**

\$'000	Years ended December 31	
	2020	2019
Base interest expense	5,830	6,164
Participation interest expense	1,971	2,071
Lease interest expense	86	44
Interest expense	7,887	8,279
Net foreign exchange (gain) loss	(438)	289
Indirect tax	1,873	1,298
	9,322	9,866

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. The participation interest will continue until October 15, 2026 regardless of whether the Loan is repaid prior to its contractual maturity date.

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 2020 a take or pay invoice of \$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. In 2019 no take or pay invoice was issued as TANESCO took the required volumes during the contract year to June 30, 2019.

10. Income Taxes

The tax charge is as follows:

\$'000	Years ended December 31	
	2020	2019
Current income tax expense	7,384	10,657
Deferred income tax expense	3,356	2,326
	10,740	12,983

Tax of \$0.6 million was paid during 2020 in relation to the settlement of the prior year's tax liability (2019: \$ nil). Installment tax payments totaling \$5.3 million were made in respect of 2020 (2019: \$10.0 million). These are presented as a reduction in tax payable on the consolidated statement of financial position.

Notes to the Consolidated Financial Statements continued

10. Income Taxes continued**Tax Rate Reconciliation**

\$'000	Years ended December 31	
	2020	2019
Income before tax per Consolidated Statements of Comprehensive Income	43,915	45,916
Less Additional Profits Tax	(4,054)	(6,587)
Income before statutory tax	39,861	39,329
Provision for income tax calculated at the statutory rate of 30%	11,958	11,799
Effect on income tax of:		
Administrative and operating expenses	1,959	1,827
Foreign exchange (gain) loss	(258)	61
Stock based compensation	186	532
TANESCO interest not recognized as interest income	1,468	2,164
Change in unrecognized tax asset	(4,796)	(2,924)
Other permanent differences	223	(476)
	10,740	12,983

As at December 31, 2020 the loss allowance for TANESCO had resulted in a \$18.6 million unrecognized deferred tax asset (December 31, 2019: \$22.2 million). If this debt is ultimately not recovered, the Company will also be entitled to a \$13.1 million (2019: \$15.3 million) refund of VAT.

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

\$'000	As at December 31	
	2020	2019
Differences between tax base and carrying value of property, plant and equipment	(30,417)	(27,153)
Tax recoverable from TPDC	(3,110)	(4,560)
Loss allowances	3,357	2,720
Additional Profits Tax	10,946	13,287
Unrealized exchange losses/other provisions	715	553
	(18,509)	(15,153)

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, 2020 the current portion of APT payable was estimated at \$11.5 million (December 31, 2019: \$11.9 million) with a long-term APT payable of \$24.8 million (December 31, 2019: \$32.3 million).

The effective APT rate of 16.8% (2019: 19.0%) has been applied to the Company's Profit Gas of \$24.1 million (2019: \$34.6 million). Accordingly, \$4.1 million of APT has been recorded as APT in Consolidated Statement of Comprehensive Income for the year ended December 31, 2020 (2019: \$6.6 million).

12. Current Trade and Other Receivables

\$'000	As at December 31	
	2020	2019
Trade receivables		
Songas	2,053	2,332
TPDC	7,417	7,284
Industrial customers	9,362	9,121
Loss allowance	(452)	(452)
	18,380	18,285
Other receivables		
Songas gas plant operations	4,571	6,431
Other	6,935	1,166
Loss allowance	(8,006)	(3,715)
	3,500	3,882
	21,880	22,167

Trade Receivables Aged Analysis

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

\$'000	As at December 31, 2019				
	Current	>30 <60	>60 <90	>90	Total
	7,631	8,228	640	1,786	18,285

Songas

As at December 31, 2020 Songas owed the Company \$6.6 million (December 31, 2019: \$8.8 million), while the Company owed Songas \$2.0 million (December 31, 2019: \$2.4 million). The amounts due to the Company are mainly for sales of gas of \$2.1 million (December 31, 2019: \$2.3 million) and for the operation of the gas plant of \$4.6 million (December 31, 2019: \$6.4 million) against which the Company has made a loss allowance of \$2.7 million (December 31, 2019: \$3.7 million). The Company is pursuing the collection of the arrears and as part of the contractual process, the Company has entered into arbitration to resolve the dispute for the amounts previously allowed for. The results of the arbitration are uncertain at this time. The amounts due to Songas primarily relate to pipeline tariff charges of \$1.7 million (December 31, 2019: \$1.8 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis.

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.

Other

The increase in other receivables and the loss allowance relate to a payment of \$5.3 million to the TRA under an Agency Notice.

Notes to the Consolidated Financial Statements continued

12. Current Trade and Other Receivables continued

Reversal of loss allowance for receivables

\$'000	Years ended December 31	
	2020	2019
Reversal of loss allowance	(20,951)	(11,044)
Loss allowance	5,337	-
	(15,614)	(11,044)

The reversal of loss allowance of \$21.0 million (2019: \$11.0 million) follows collection of: (i) TANESCO arrears of \$19.9 million (2019: \$11.0 million) which had been previously allowed for and represents the excess of receipts over gas sales invoiced during the year; and (ii) Songas operatorship arrears of \$1.1 million (2019: \$ nil) which had been previously allowed for (see Note 7).

The loss allowance is for a receivable from the Tanzanian Revenue Authority ("TRA") who issued an Agency Notice for \$5.3 million obligating PAET's commercial bank in Tanzania to release funds in favor of the TRA. The tax dispute related to the Agency Notice is ongoing and based on the opinion of the Company's legal advisors there is better than a 50% chance of the dispute being resolved in favor of the Company (see Note 21). The Company recorded the \$5.3 million as other receivables and fully allowed for the amount in dispute as the timing and likelihood for collection is uncertain.

13. Capital Assets

\$'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

13. Capital Assets continued

\$'000	Natural gas interests	Office and other	Right-of-use	Total
Costs				
As at December 31, 2018	210,010	3,860	-	213,870
Additions	4,153	18	1,665	5,836
Disposals	-	(1,008)	-	(1,008)
As at December 31, 2019	214,163	2,870	1,665	218,698
Accumulated depletion and depreciation				
As at December 31, 2018	102,753	3,643	-	106,396
Additions	15,005	135	189	15,329
Disposals	-	(1,008)	-	(1,008)
As at December 31, 2019	117,758	2,770	189	120,717
Net book values				
As at December 31, 2019	96,405	100	1,476	97,981

In determining the depletion charge, it is estimated that future development costs of \$34.2 million (December 31, 2019: \$67.9 million) will be required to bring the total proved reserves to production. The decrease in estimated future development costs is a result of expenditures during the year of \$27.1 million and a downward revision of the future cost estimates. The future development cost is an estimate of 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. During the year the Company recorded depreciation of \$0.1 million (2019: \$0.3 million) in general and administrative expenses.

Notes to the Consolidated Financial Statements continued

13. Capital Assets continued**Right-of-use assets**

\$'000	
As at December 31, 2019	1,476
Additions	80
Disposals	(418)
Depreciation	(397)
As at December 31, 2020	741
As at January 1, 2019 (effect from IFRS 16 adoption)	537
Additions	1,128
Depreciation	(189)
As at December 31, 2019	1,476

Lease liabilities

\$'000	
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
As at January 1, 2019 (effect from IFRS 16 adoption)	537
Additions	1,128
Lease interest expense	44
Lease payments	(298)
As at December 31, 2019	1,411

Right-of-use assets are presented as part of capital assets on the Company's balance sheet. Of the total lease liability of \$0.7 million (2019: \$1.4 million), \$0.3 million (2019: \$0.3 million) is current and is presented in trade and other payables.

Disposals relate to the surrender of the Winchester office lease and renegotiation of the Ubongo lease. Lease payments includes the final lease payment including costs for returning the Winchester office premises to their original condition along with regular lease payments on two lease agreements in Tanzania.

14. Trade and Other Payables

\$'000	As at December 31	
	2020	2019
Songas	2,062	2,354
Other trade payables	2,573	1,310
Trade payables	4,635	3,664
TPDC Profit Gas entitlement, net	25,570	33,134
Accrued liabilities	9,082	11,363
	39,287	48,161

TPDC share of Profit Gas

\$'000	As at December 31	
	2020	2019
TPDC share of Profit Gas	30,405	38,077
Less "Adjustment Factor"	(4,835)	(4,943)
TPDC share of Profit Gas entitlement	25,570	33,134

Under the PSA revenue sharing mechanism, the Company is to adjust TPDC's Profit Gas entitlement 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 \$26.0 million liability to TPDC is dependent on receipt of payment from TANESCO for long-term arrears that have been fully allowed for.

15. Long-term Receivables

\$'000	As at December 31	
	2020	2019
Amounts invoiced to TANESCO	111,234	118,861
Unrecognized amounts not meeting revenue recognition criteria ¹	(83,685)	(71,407)
Loss allowance	(27,549)	(47,454)
Net TANESCO receivable	-	-
VAT – Songas workovers	2,205	2,205
Lease deposit	9	45
	2,214	2,250

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. In April 2021, TANESCO paid the take or pay invoice of \$5.0 million for the 2015-2016 contract year for gas to be taken by June 30, 2021.

During the year the amounts received from TANESCO were in excess of the revenue recognized for gas sales to TANESCO and \$19.9 million of cumulative excess cash receipts over sales invoiced in 2020 were recorded, reducing the long-term arrears and allowing the reversal of the associated loss allowances (2019: \$11.0 million). In Q2 2020 the Company invoiced TANESCO \$6.5 million (Q2 2019: \$ nil) 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.

Notes to the Consolidated Financial Statements continued

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 million starting April 15, 2022 and one final payment of \$25.2 million due on April 15, 2025. The Company may voluntarily prepay all or part of the Loan but must simultaneously pay any accrued base interest costs related to the principal amount being prepaid. The Loan is an unsecured subordinated obligation of PAET and was initially guaranteed by the Company to a maximum of \$30 million. The guarantee may only be called upon by IFC at maturity in 2025 and, subject to IFC approval and receipt of all required regulatory approvals, the Company, at its discretion, may issue shares in 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 to the Company are restricted, if at any time amounts of interest, principal or participating interest are due and outstanding. All amounts due under the Loan have been paid when due.

\$'000	As at December 31	
	2020	2019
Loan principal	55,240	55,240
Financing costs	(994)	(1,183)
	54,246	54,057

17. Capital Stock**Authorized**

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 vote per share. The Class A Shares are convertible at the option of the holder at any time into Class B Shares on a one-for-one basis. The Class B Shares are convertible into Class A Shares on a one-for-one basis in the event that a take-over bid is made to purchase Class A Shares which must, by reason of a stock exchange or legal requirements, be made to all or substantially all of the holders of Class A Shares and which is not concurrently made to holders of Class B Shares.

Changes in the capital stock

Number of shares	As at December 31					
	2020			2019		
	Authorized (000)	Issued (000)	Amount (\$'000)	Authorized (000)	Issued (000)	Amount (\$'000)
Class A Shares	50,000	1,750	983	50,000	1,750	983
Class B Shares	100,000	24,388	62,260	100,000	32,557	83,116
First preference shares	100,000	-	-	100,000	-	-
Total	250,000	26,138	63,243	250,000	34,307	84,099

During the year the Company repurchased and canceled 7,692,297 Class B Shares at a weighted average price of CDN\$6.50 per Class B Share under a substantial issuer bid ("SIB"). This resulted in an aggregate purchase of CDN\$50.0 million of Class B Shares representing 23.6% of the Company's issued and outstanding Class B Shares and 22.4% of the total number of the Company's issued and outstanding shares. Total cash payments of \$38.2 million were applied to the capital stock, contributed surplus and accumulated income accounts.

In addition, during 2020 the Company repurchased and canceled 477,500 Class B Shares at a weighted average price of CDN\$5.32 per Class B Share under the normal course issuer bid ("NCIB"). This resulted in an aggregate purchase of CDN\$2.5 million of Class B Shares. Total cash payments of \$2.1 million were applied to the capital stock, contributed surplus and accumulated income accounts.

All issued capital stock is fully paid.

17. Capital Stock continued**Changes in Stock Appreciation Rights ("SARs")**

	2020		2019	
	SARs (000)	Exercise price (CDN\$)	SARs (000)	Exercise price (CDN\$)
Outstanding as at January 1	2,322	2.30 to 6.65	645	2.30 to 3.87
Issued	160	5.02	2,169	5.00 to 6.65
Exercised	(517)	5.00	-	-
Exercised	(120)	3.02	(405)	2.30 to 3.87
Exercised	(30)	3.87	-	-
Exercised	(30)	2.30	-	-
Forfeited	(317)	5.00	(87)	5.00
Forfeited	(118)	5.02	-	-
Forfeited	(108)	6.65	-	-
Outstanding as at December 31	1,242	3.02 to 6.65	2,322	2.30 to 6.65

The number outstanding, the weighted average remaining life and weighted average exercise prices of SARs at December 31, 2020 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	2.00	-	3.87
5.00 to 6.65	1,182	2.04	206	5.11
3.87 to 6.65	1,242	2.03	206	5.05

Change in Restrictive Stock Units ("RSUs")

	2020		2019	
	RSUs (000)	Exercise price (CDN\$)	RSUs (000)	Exercise price (CDN\$)
Outstanding as at January 1	235	0.01	88	0.01
Issued	20	0.01	218	0.01
Exercised	(78)	0.01	(63)	0.01
Forfeited	(44)	0.01	(8)	0.01
Outstanding as at December 31	133	0.01	235	0.01

The number outstanding, the weighted average remaining life and weighted average exercise prices of RSUs at December 31, 2020 were as follows:

Exercise price (CDN\$)	Number outstanding (000)	Number exercisable (000)	Weighted average remaining contractual life (years)
0.01	133	20	2.06

As SARs and RSUs are settled in cash, they are re-valued at each reporting date using the Black-Scholes option pricing model with the resulting liability being recognized in trade and other payables. In the valuation of stock appreciation rights and restricted stock units as at December 31, 2020, the following assumptions have been made: a risk free rate of interest of 1.0%, stock volatility of 31.0% to 41.0%, 5% forfeiture and a closing stock price of CDN\$6.33 per 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.

Notes to the Consolidated Financial Statements continued

17. Capital Stock continued

Change in Restrictive Stock Units ("RSUs") continued

\$'000	As at December 31	
	2020	2019
SARs	1,683	1,996
RSUs	496	536
	2,179	2,532

As at December 31, 2020 a total accrued liability of \$2.2 million (December 31, 2019: \$2.5 million) has been recognized in relation to SARs and RSUs which is included in other payables. The Company recognized an expense for the year of \$1.1 million (2019: \$2.5 million) as stock based compensation.

Dividend Summary

Declaration date	Record date	Payment date	Amount per share (CDN\$)
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
November 28, 2019	December 31, 2019	January 31, 2020	0.06
September 17, 2019	September 30, 2019	October 31, 2019	0.06
May 29, 2019	June 30, 2019	July 31, 2019	0.06
January 22, 2019	March 31, 2019	April 30, 2019	0.05

18. Earnings Per Share

(000)	As at December 31	
	2020	2019
Outstanding shares		
Weighted average number of Class A and Class B Shares	27,818	34,931
Weighted average diluted number of Class A and Class B Shares	27,818	34,931

The calculation of basic earnings per share is based on a net income attributable to shareholders for the year of \$27.7 million (2019: \$24.7 million) and a weighted average number of Class A and Class B Shares outstanding during the period of 27,817,531 (2019: 34,931,144).

19. Related Party Transactions

The Chairman of the Company's Board of Directors is counsel to Burnett, Duckworth and Palmer LLP, a law firm that provides legal advice to the Company and its subsidiaries. During the year ended December 31, 2020 fees for services provided by this firm totaled \$1.0 million (2019: \$0.4 million).

As at December 31, 2020 the Company had a total of \$0.1 million (December 31, 2019: \$0.2 million) recorded in trade and other payables in relation to the related party.

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 235 Bcf as at December 31, 2019 (December 31, 2019: 214 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 the end of 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.

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 and \$3.14/mcf on July 1, 2020. 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 MMscf/d 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.

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. The lease of the London office was renewed in November, 2020 at \$0.1 million per annum for a further six months. The cost of the London office lease is recognized in the general and administrative expenses. Previously the Company had a rental agreement in Winchester, England; this lease was terminated in 2020.

Notes to the Consolidated Financial Statements continued

20. Contractual Obligations and Committed Capital Investments continued

Capital Commitments

Tanzania

At the date of this report, the Company's only significant outstanding contractual commitment is in relation to the \$38 million fixed price turn-key compression contract; \$24.7 million has been paid to date. The remaining forecasted capital expenditures under this contract are \$9.5 million in 2021 and \$3.8 million in 2022.

Italy

The Company relinquished its rights to farm-in on the Central Adriatic permit in 2019 and has no further capital obligations relating to Italian operations. The subsidiary companies previously used for the Company's Italian operations were wound up in Q2 2020.

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

During 2019 discussions on the disputed amounts 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.

21. Contingencies continued**Taxation**

Amounts in \$'millions					As at December 31	
					2020	2019
Area	Period	Reason for dispute	Principal	Interest	Total	Total
Pay-As-You-Earn ("PAYE") tax	2008-16	PAYE tax on grossed-up amounts in staff salaries which are contractually stated as net.	1.2	0.4	1.6 ⁽¹⁾	1.5
Withholding tax ("WHT")	2005-16	WHT on services performed outside of Tanzania by non-resident persons, on deemed dividends, loan interest and other services.	5.7	3.0	8.7 ⁽²⁾	8.3
Income tax	2008-16	Deductibility of capital expenditures and expenses (2009, 2012, 2015 and 2016), additional income tax (2008, 2010, 2011 and 2012), tax on repatriated income (2012), deemed branch dividends (2015 and 2016), foreign exchange rate application (2013 and 2015) and underestimation of tax due (2014).	35.1	17.0	52.1 ⁽³⁾	50.9
VAT	2008-18	Output VAT on imported services and SSI Operatorship services (2008-16), interest on VAT decreasing adjustments and input VAT on services (2017 and 2018).	2.9	3.9	6.8 ⁽⁴⁾	5.7
			44.9	24.3	69.2	66.4

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 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 2019 following completion of audits for the years 2015 and 2016, TRA issued assessments for \$15.1 million with regards to corporation tax, withholding tax, VAT, excise duty and payroll tax. With the exception of \$0.1 million of VAT and WHT on rent which the Company has conceded, the Company has objected to the other components of the assessment and requested a waiver of the deposit required to allow a dispute of the assessment and is awaiting a TRA response. The Company has also objected to several other assessments from the TRA demanding deposits to allow the dispute to be made and is awaiting Tax Revenue Appeal Board ("TRAB") hearing dates. Management, with advice from its legal counsels, has reviewed the Company's position on the objections and appeals related to the disputed amounts and has concluded that no provision is required with regard to these matters and that the maximum potential exposure is \$63.6 million (December 31, 2019: \$66.4 million).

During 2020 acting under instructions from the TRA, PAET's commercial bank in Tanzania transferred to the TRA the full principal tax amount of \$2.6 million and the interest of \$2.7 million with regards to the 2008-10 output VAT. Subsequently, the Company filed an appeal for review with the Tanzanian Court of Appeal ("CAT"). These amounts have been recorded in trade and other receivables and fully provided for pending the resolution of the dispute.

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, acting under instructions from the TRA, PAET's commercial bank 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.

Notes to the Consolidated Financial Statements continued

21. Contingencies continued

The process of appealing assessments issued by TRA start by initially filing an appeal with the TRA. If this is not successful, claims can be taken to higher authorities starting with the 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 and filed an application for judicial review at CAT. TRA instructed PAET's commercial bank in Tanzania to transfer the full principal amount in dispute to TRA;
- (b) 2015-16 (\$1.3 million): The Company has objected to an assessment and is awaiting a TRA response;
- (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. Waiting to see whether TRA will file an application to object to the CAT ruling;
- (b) 2010 (\$0.1 million): TRAT ruled in favor of TRA. The Company has filed a notice of intention to appeal with CAT and is awaiting a TRAT written judgment to finalize the appeal;
- (c) 2015-16 (\$7.0 million): The Company objected to several assessments in 2019 issued by TRA with regards to withholding tax and is awaiting a TRA response. The Company appealed to TRAB against the one-third deposit required to admit the objection and is awaiting a TRAB judgment;
- (3) (a) 2008 (\$0.6 million): The Company has objected to a TRA assessment that did not recognize a tax loss carried forward and is awaiting a response;
- (b) 2009 (\$2.8 million): The Company has filed an application for review of a CAT judgment and is awaiting a hearing date (\$2.0 million). The Company objected to an amended assessment from TRA (\$0.8 million) for being time-barred and arbitrary and is awaiting a TRA response;
- (c) 2010 (\$2.4 million): The Company is awaiting a judgment from a TRAB hearing held in 2019;
- (d) 2011 (\$1.9 million): The Company is awaiting a judgment from TRAB (\$1.7 million). The Company is also awaiting a TRA response on an objection of an assessment (\$0.2 million);
- (e) 2012 (\$15.4 million): The Company has objected to TRA assessments with respect to understated revenue, timing of deductibility of capital expenditures, expenses and tax on repatriated income. The Company is awaiting a CAT hearing date for waiver of a deposit payment required to file its objection;
- (f) 2013 (\$9.1 million): The Company filed an objection to TRA assessment (\$0.1 million) and is awaiting a response. The Company has objected to two assessments as being time-barred without merit and tax on repatriated income (\$9.0 million) and is in the process of appealing to CAT that a deposit is required to file the objection;
- (g) 2014 (\$11.6 million): The Company filed an objection to a TRA assessment (\$3.3 million) and is in the process of appealing to CAT that a deposit is required to file the objection. TRA issued two additional assessments for the year for corporation tax of \$5.3 million and tax on repatriated income of \$3.1 million. The Company has objected to the assessments and is awaiting a TRA response;
- (h) 2015-16 (\$8.3 million): The Company filed objections to TRA assessments and is awaiting a response;
- (4) (a) 2008-2010 (\$5.3 million): Acting under instructions from TRA, PAET's commercial bank in Tanzania transferred the full disputed amount of \$5.3 million to TRA. The Company has filed an appeal at CAT and is awaiting a decision;
- (b) 2015-16 (\$0.3 million): The Company has filed an objection to a TRA assessment and is awaiting a response;
- (c) 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 is still evaluating the tax effects of the changes as there are a number of uncertainties and ambiguities as to the interpretation and application of certain provisions of the WLMAA, 2017. In the absence of guidance on these matters, the Company 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 entitlement under the terms of the PSA.

22. Directors and Officers Emoluments

\$'000	Year	Base	Bonus	Stock based	Total
				compensation expense	
Directors	2020	514	-	157	671
Directors	2019	554	-	273	827
Officers	2020	1,465	472	285	2,222
Officers	2019	1,486	-	1,082	2,568

The table above provides information on compensation relating to the Company's officers and directors. Five officers (year ended December 31, 2019: four) and six non-executive directors (year ended December 31, 2019: six) comprised the key management personnel during the year ended December 31, 2020. As at December 31, 2020, there were three officers and three non-executive directors reflecting the Company's focus on Tanzanian operations and termination of plans to expand to other parts of Africa.

23. Change in Non-Cash Operating Working Capital

\$'000	As at December 31	
	2020	2019
Increase in trade and other receivables	(1,654)	(7,552)
Decrease in prepayments	5,854	(5,535)
Decrease in trade and other payables	(9,892)	(15,251)
Decrease in APT	(11,939)	-
Increase in tax payable	1,455	501
Decrease in long-term receivable	36	174
	(16,140)	(27,663)

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, 2020 the Company has not received any distributions or recorded any amount receivable related to the Preference Shares.

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

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

\$'000	As at December 31	
	2020	2019
Balance, beginning of year	163	(513)
Net income attributable to non-controlling interest	1,360	1,628
Dividends paid	-	(952)
Balance, end of year	1,523	163

25. Subsequent Events

On January 22, 2021 the Company announced the final results of the substantial issuer bid whereby the Company took up and paid for 6,153,846 Class B Shares at a price of CDN\$6.50 per Class B Share representing an aggregate purchase price of approximately CDN\$40.0 million and 25.2% of the total number 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.

On February 23, 2021 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, 2021 paid on April 15, 2021.

Corporate Information

Board of Directors

Jay Lyons

Executive Director and
Interim 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

Lloyd Herrick

Director, PAET
Calgary, Canada

Officers

Jay Lyons

Interim Chief Executive Officer
Vancouver, Canada

Blaine Karst

Chief Financial Officer
Calgary, Canada

Andrew Hanna

Managing Director, PAET
Surrey, UK

Operating Office

PanAfrican Energy Tanzania Limited
Oyster Plaza Building, 5th Floor,
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Tel: + 255 22 2138737
Fax: + 255 22 2138938

Registered Office

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Road Town Tortola
British Virgin Islands, VG110

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Jay Lyons

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Blaine Karst

Chief Financial Officer
bkarst@orcaenergygroup.com

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Port Louis,
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Engineering Consultants

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Website

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Lawyers

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Calgary, Canada

Transfer Agent

AST Trust Company

Calgary, Canada

