Orca Energy Group Inc.

2022 Q1 Interim Report

PROVIDING RELIABLE DOMESTIC NATURAL GAS TO SUPPORT TANZANIA'S GROWTH

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Management's Discussion & Analysis

THIS MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2022 SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND NOTES FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TOGETHER WITH THE MD&A FOR THE YEAR ENDED DECEMBER 31, 2021. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON MAY 19, 2022. ALL AMOUNTS ARE REPORTED IN US DOLLARS ("$") UNLESS OTHERWISE NOTED.

THIS MD&A CONTAINS NON-GAAP FINANCIAL MEASURES AND RATIOS AND FORWARD-LOOKING INFORMATION. READERS ARE CAUTIONED THAT THIS MD&A SHOULD BE READ IN CONJUNCTION WITH THE DISCLOSURE BELOW UNDER THE HEADINGS "NON-GAAP FINANCIAL MEASURES AND RATIOS", "FORWARD-LOOKING STATEMENTS" AND "GLOSSARY" INCLUDED AT THE END OF THIS MD&A.

Nature of Operations

The principal asset of Orca Energy Group Inc. ("Orca" or the "Company") is its interest in the Production Sharing Agreement ("PSA") with the Tanzanian Petroleum Development Corporation ("TPDC") and the Government of Tanzania ("GoT") in the United Republic of Tanzania. This PSA covers the production and marketing of natural gas from the Songo Songo license offshore Tanzania. The PSA defines the gas produced from the Songo Songo gas 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 31, 2024) to Songas Limited ("Songas") and Tanzania Portland Cement PLC ("TPCPLC"). Songas is the owner of the infrastructure that enables the gas to be treated and delivered to Dar es Salaam, which includes a gas processing plant on Songo Songo Island (collectively, the "Songas Infrastructure").

Songas utilizes the Protected Gas as fuel for its gas turbine electricity generators and for onward sale to customers while TPCPLC uses the gas to fire kilns for the production of cement. A small amount of Protected Gas is also reserved for village electrification. The Company receives no revenue for the Protected Gas delivered to Songas or other recipients and operates the original wells and gas processing plant on a 'no gain no loss' basis. Under the PSA, the Company has the right to produce and market all gas in the Songo Songo gas field in excess of the Protected Gas requirements set forth in the PSA ("Additional Gas") until the PSA expires in October 2026.

The Tanzanian Electric Supply Company Limited ("TANESCO") is a parastatal organization wholly owned by the GoT with oversight by the Ministry of Energy ("MoE"). TANESCO is responsible for the majority of electricity generation, transmission and distribution throughout Tanzania. Natural gas has become an integral component of TANESCO's power generation fuel mix as a more reliable source of supply over seasonal hydropower as well as a more cost-effective and lower CO2 intensive alternative to liquid fuels. The Company and TPDC as joint sellers currently supply Additional Gas directly to TANESCO by way of the Portfolio Gas Supply Agreement ("PGSA") and indirectly through the supply of Protected Gas and Additional Gas to Songas, which in turn generates and sells power to TANESCO. The Company also supplies Additional Gas to TPDC through a long-term gas sales agreement ("LTGSA") utilizing the National Natural Gas Infrastructure ("NNGI").

In addition to supplying gas to TPDC, Songas and TANESCO, the Company has developed over 50 contracts to supply gas to Dar es Salaam's industrial market and is in the process of negotiating several more.

Outlook – COVID-19

There has been no significant change in the Company's business during Q1 2022 as a result of the ongoing coronavirus pandemic ("COVID-19"). The Tanzanian government introduced new restrictions and started a vaccination program in an effort to control the spread of COVID-19 however given the steps already taken by the Company, while logistic supply chains have been stretched and delays incurred no significant impact on our operations or business results were experienced as a result of the new restrictions. The current situation is dynamic and the ultimate duration and magnitude of the impact on the Tanzanian economy and the financial effect on the Company are not known at this time.

Financial and Operating Highlights for the Three Months Ended March 31, 2022

(Expressed in $'000 unless indicated otherwise)	Three Months ended March 31 2022	2021	% Change Q1/21 vs Q1/20
OPERATING			
Daily average gas delivered and sold *(MMcfd)*	**73.6**	58.7	25%
Industrial	**13.9**	14.0	(1)%
Power	**59.7**	44.7	34%
Average price *($/mcf)*			
Industrial	**8.70**	7.32	19%
Power	**3.52**	3.40	4%
Weighted average	**4.50**	4.33	4%
Operating netback *($/mcf)*[1]	**3.29**	2.37	39%
FINANCIAL			
Revenue	**27,452**	18,631	47%
Net income attributable to shareholders	**7,391**	3,963	87%
per share – basic and diluted *($)*	**0.37**	0.19	95%
Net cash flows from (used in) operating activities	**4,077**	(794)	n/m
per share – basic and diluted *($)*[1]	**0.20**	(0.04)	n/m
Capital expenditures[1]	**14,263**	232	6,048%
Weighted average Class A and Class B shares *('000)*	**19,944**	21,352	(7)%

	March 31, 2022	As at December 31, 2021	% Change
Working capital (including cash)[1]	**41,136**	41,776	(2)%
Cash and cash equivalents	**66,993**	72,985	(8)%
Long-term loan	**49,678**	49,603	0%
Outstanding shares *('000)*			
Class A	**1,750**	1,750	0%
Class B	**18,192**	18,203	0%
Total shares outstanding	**19,942**	19,953	0%

[1] Please refer to Non-GAAP financial measures and ratios section of the MD&A for additional Information.

Financial and Operating Highlights for Q1 2022

- Revenue for Q1 2022 increased by 47% compared to the same prior year period. The increase was primarily a result of increased sales to customers in the power sector. Gas deliveries for the quarter increased by 25% compared to the same prior year period. The increase in gross sales volume was primarily due to the increase in gas deliveries to customers in the power sector as a result of increased deliveries to TPDC.
- Net income attributable to shareholders increased by 87% for Q1 2022 compared to the same prior year period primarily a result of the increased revenues compared to Q1 2021.
- Net cash flows from operating activities for Q1 2022 increased by $4.9 million compared to the same prior year period. This was primarily a result of the increase in net income and non-cash adjustments, which was partially offset by negative changes in non-cash working capital relative to the comparable prior year period.
- Capital expenditures increased substantially for Q1 2022 compared to the same prior year period. The capital expenditures in Q1 2022 primarily related to completion of both the well workover program for the SS-3, SS-4 and SS-10 wells and the compression project. The Company installed feed gas compression on the Songas gas processing facility to allow production volumes through the Songas Infrastructure to be sustained at approximately 102 MMcfd in the near term (2-4 years). Despite increased logistical complexity due to enduring effects of COVID-19, the compression project was completed one-month ahead of schedule. The project was negatively impacted by the scheduling of a 10-day plant shutdown to effect a mechanical tie-in, which was delayed to avoid power generation shortages through a critical period in Tanzania. When eventually enacted, the mechanical tie-in was completed in 8-days as opposed to the scheduled 10-days, significantly increasing gas for power generation. In April 2022, the drilling rig was released having completed the planned three well (SS-3, SS-4 and SS-10) workover program. The $31.6 million program included the reactivation of the SS-3 and SS-4 wells along with the installation of corrosion resistant production tubing on all three of the wells. The SS-3 well was placed on production on February 15, 2022 and the SS-10 well was returned to production on April 18, 2022. The SS-4 well remains shut in following the drilling and completion of a planned side-track wellbore to replace the original wellbore, which had been compromised by excessive sand production. Currently the SS-4 well is unable to flow naturally due to suspected excessive liquid loading associated with extensive circulating time while waiting on necessary services and equipment. The Company is sourcing a coiled tubing nitrogen unit to safely unload the excess liquid, potentially allowing the well to flow naturally. It is expected the coiled tubing equipment will be on location in Q3 2022. The workovers and compression facilities provide the opportunity to initially increase current production deliverability to a total of approximately 160 MMcfd by also producing through the adjacent NNGI facilities on Songo Songo Island.
- The Company exited the period in a strong financial position with $41.1 million in working capital (December 31, 2021: $41.8 million), cash and cash equivalents of $67.0 million (December 31, 2021: $73.0 million) and long-term debt of $49.7 million (December 31, 2021: $49.6 million). The decrease in working capital, cash and cash equivalents was primarily related to the well workover program in Q1 2022.
- As at March 31, 2022 the current receivable from TANESCO was $0.3 million (December 31, 2021: $2.0 million). TANESCO's long-term trade receivable as at March 31, 2022 and December 31, 2021 was $26.5 million with a provision of $26.5 million. Subsequent to March 31, 2022 TANESCO paid the Company $7.1 million and the Company invoiced TANESCO $6.4 million for April 2022 gas deliveries.
- On February 24, 2022, the Company declared a dividend of CDN$0.10 per share on each of its Class A common voting shares ("Class A Shares") and Class B subordinate voting shares ("Class B Shares") for a total of $1.6 million to the holders of record as of March 31, 2022, which was paid on April 15, 2022.
- The Company forecasts average gross gas sales of 70-76 MMcfd during 2022 representing a 10 MMcfd, or approximately 16%, increase to the prior forecasts of 60-66 MMcfd. The increased gas demand forecast is primarily driven by encouraging discussions with the MoE, TPDC and TANESCO to increase gas supply to new power generation facilities expected to be commissioned in 2022.

There are a number of potential risks that may affect the Company and its performance in the future. See "Business Risks" in this MD&A.

Operating Volumes

The average gross daily sales volume increased 25% for Q1 2022 over the comparable prior year period, primarily due to increased sales of natural gas to the power sector.

The Company's gross sales volumes were split between the industrial and power sectors as detailed in the table below:

	Three Months ended March 31	
	2022	2021
Gross sales volume *(MMcf)*		
Industrial sector	**1,248**	1,259
Power sector	**5,377**	4,023
Total volumes	**6,625**	5,282
Gross daily sales volume average *(MMcfd)*		
Industrial sector	**13.9**	14.0
Power sector	**59.7**	44.7
Gross daily sales volume average total	**73.6**	58.7

Industrial Sector

Industrial sector gross daily sales volumes decreased by 1% for Q1 2022 over the comparable prior year periods. The decrease was primarily a result of scheduled maintenance at a cement plant.

Power Sector

Power sector gross daily sales volumes increased by 34% for Q1 2022 over the comparable prior year period. The increase was primarily due to increased gas sales to TPDC though the NNGI.

Protected Gas Volumes

Protected Gas volumes for Q1 2022 increased by 9% to 3,344 MMcf (37.2 MMcfd) compared to 3,059 MMcf (34.0 MMcfd) for Q1 2021. The Company receives no revenue for Protected Gas volumes however the volumes are required to calculate total gas produced from the reservoir and the allocation of certain production, distribution and transportation expenses between Protected Gas and Additional Gas.

Commodity Prices

The commodity prices achieved in the different sectors during the respective periods are detailed in the table below:

	Three Months ended March 31	
$/mcf	2022	2021
Average sales price		
Industrial sector	**8.70**	7.32
Power sector	**3.52**	3.40
Weighted average price	**4.50**	4.33

Industrial Sector

The average sales price for the industrial sector increased by 19% for Q1 2022 over the comparable prior year period. The increase is primarily due to the underlying increase in the price of heavy fuel oil against which most of the industrial customer contracts are priced.

Power Sector

The average sales price for the powers sector increased by 4% for Q1 2022 over the comparable prior year period. The average sales price for the power sector varies depending on whether gas is delivered and sold through the NNGI or the Songas Infrastructure. Sales through the NNGI are to TPDC and do not include processing and transportation tariffs which are included in gas delivered through the Songas Infrastructure.

Revenue

Under the terms of the PSA the Company is responsible for invoicing, collecting and allocating the revenue from Additional Gas sales (See "Principal Terms of the PSA and Related Agreements" in the Company's MD&A for the year ended December 31, 2021).

The Company is entitled to recover all costs incurred on the exploration, development and operations of the project ("Cost Gas revenue") up to a maximum of 75% of the net field revenue (gross field revenue less the tariff for processing and pipeline infrastructure) prior to allocating the remaining net field revenue between TPDC and the Company ("Profit Gas revenue"). Any costs not recovered in a period are carried forward for recovery out of future revenues. Once the Cost Gas revenue has been recovered, TPDC is able to recover any pre-approved marketing costs. Currently there are no pre-approved marketing costs for TPDC.

The Company is liable for income tax in Tanzania, but under the terms of the PSA, TPDC's share of revenue is reduced by the current tax payable grossed up at 30% ("income tax adjustment"). Revenue as presented on the Consolidated Interim Statements of Comprehensive Income is calculated by adjusting the Company's operating revenue by the income tax adjustment.

The reconciliation of gross field revenue to Company operating revenue and revenue is detailed below:

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

Revenue increased by 47% for Q1 2022 over the comparable prior year period. The increase is primarily a result of increased sales to both the industrial and power sectors, together with decrease in the TPDC share of revenue as an outcome of increased capital expenditures and higher Cost Gas revenue recoveries by the Company.

The average Additional Gas sales volumes for the quarters ended March 31, 2022 and March 31, 2021 were above 50 MMcfd, which entitled the Company to a 55% share of Profit Gas revenue. The Company was allocated a total of 84% of the Additional Gas net field revenue for Q1 2022 (Q1 2021: 66%)

Production, Distribution and Transportation Expenses

The production, distribution and transportation costs are detailed in the table below:

	Three Months ended March 31	
$'000	2022	2021
Operating costs	**707**	495
Tariff for processing and pipeline infrastructure	**2,307**	2,147
Ring-main distribution costs	**520**	570
	3,534	3,212

Included in operating costs are well maintenance costs, PSA license costs, regulatory fees, insurance, certain costs associated with evaluation of the reserves and the costs of personnel not recoverable from Songas. Operating costs are allocated between Protected Gas (recoverable from Songas) and Additional Gas in proportion to their respective volumes during the period. Operating costs increased by 43% for Q1 2022 compared to the same prior year period, primarily as a result of a reclassification of insurance costs from ring-main distribution costs. The amount paid under the tariff for processing and pipeline infrastructure increased by 7% for Q1 2022 compared to the same prior year period, primarily as result of increased gas volumes processed and delivered through the Songas Infrastructure. Ring-main distribution costs decreased by 9% for Q1 2022 compared to the same prior year period, primarily as a result of reduced spending on expansion and lower maintenance costs associated with the ring-main which transports the gas primarily to industrial customers and reclassification of insurance costs to operating costs.

Operating Netbacks

The operating netback per mcf before general and administrative expenses, tax and additional profits tax ("APT") is detailed in the table below (see "Non-GAAP financial measures and ratios"):

	Three Months ended March 31	
$/mcf	2022	2021
Weighted average price for gas	**4.50**	4.33
TPDC Profit Gas revenue entitlement	**(0.68)**	(1.35)
Production, distribution and transportation expenses	**(0.53)**	(0.61)
Operating netback	**3.29**	2.37

The operating netback increased by 39% for Q1 2022 over the comparable prior year period. The increase is primarily a result of the decrease in the TPDC share of revenue as an outcome of increased capital expenditures and higher Cost Gas revenue recoveries by the Company.

General and Administrative Expenses

General and administrative expenses are split between the Company's head office and Tanzania. A significant percentage of administration expenses relate to office and management costs that support our operations in Tanzania and are cost recoverable under the PSA.

	Three Months ended March 31	
$'000	2022	2021
Tanzania	**1,964**	1,718
Corporate	**1,029**	1,128
	2,993	2,846

General and administrative expenses are detailed in the tables below:

	Three Months ended March 31	
$'000	2022	2021
Employee and related costs	**1,551**	1,764
Office costs	**951**	731
Marketing and business development costs	**83**	164
Reporting, regulatory and corporate	**408**	187
	2,993	2,846

General and administrative expenses averaged $1.0 million per month during Q1 2022 (Q1 2021: $0.9 million). The 12% decrease in employee and related costs in Q1 2022 over the comparable prior year period was mainly due to the reduction in bonus payments. The 30% increase in office costs in Q1 2022 over the comparable prior year period was a result of the increase in costs related to business travel and logistical services in Tanzania. The 49% decrease in marketing and business development costs in Q1 2022 over the comparable prior year period was a result of the decision to focus on Tanzanian operations. The 118% increase in reporting, regulatory and corporate costs in Q1 2022 over the comparable prior year period was due to increase in costs related to professional and legal services.

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Stock Based Compensation

The breakdown of the cost recoveries in relation to stock based compensation is detailed in the table below:

	Three Months ended March 31	
$'000	2022	2021
Stock appreciation rights ("SARs")	**(11)**	(300)
Restricted stock units ("RSUs")	**(5)**	(156)
	(16)	(456)

As at March 31, 2022 a total of 686,166 SARs were outstanding (December 31, 2021: 746,166). No new SARs were issued or forfeited, and 60,000 SARs were exercised during Q1 2022. As at March 31, 2022 a total of 76,366 of RSUs were outstanding (December 31, 2021: 76,366 RSUs). No new RSUs were issued, exercised or forfeited during Q1 2022.

As SARs and RSUs are settled in cash, they are re-valued at each reporting date using the Black-Scholes option pricing model with the resulting liability being recognized in trade and other payables. In the valuation of SARs and RSUs at the reporting date, the following assumptions have been made: a risk-free rate of interest of 1.0%, stock volatility of 30.0% to 32.0%, 5% forfeiture and a closing price of CDN$5.18 per Class B Share. The valuation of the SARs and RSUs awards is increased to reflect the amount of dividends paid between the award date to the time of exercise.

As at March 31, 2022 a total accrued liability of $0.9 million (December 31, 2021: $1.1 million) has been recognized in relation to SARs and RSUs. The Company recognized a recovery for Q1 2022 of $0.02 million (Q1 2021: $0.5 million) as stock based compensation.

Depletion and Depreciation

Natural gas properties are depleted using the unit of production method based on the production for the period as a percentage of the total future production from the Songo Songo proved reserves. The estimated proved conventional natural gas reserves remaining to be produced over the term of the PSA were 150 Bcf (December 31, 2021: 160 Bcf) as determined by McDaniel & Associates Consultants Ltd. in their report dated February 24, 2022 with an effective date of December 31, 2021, prepared in accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities and the Canadian Oil & Gas Evaluation Handbook . Please refer to the "Oil and Gas Advisory" in this MD&A for additional information.

The average depletion rate was $0.84/mcf for the quarter ended March 31, 2022 compared to $0.71/mcf for the comparable prior year period.

	Three Months ended March 31	
$'000	2022	2021
Natural gas interests	**5,582**	3,728
Office and other	**(1)**	11
Right-of-use assets	**73**	73
	5,654	3,812

The depletion for natural gas interests increased by 50% for Q1 2022 compared to Q1 2021. The increase was primarily the result of increased gas produced and sold, additional capital expenditure, and a reduction in estimated proved reserves.

Finance Income and Expense

Finance income is detailed in the table below:

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

Finance expense is detailed in the table below:

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

Base and participation interest expense relate to the $60 million long-term loan ("Loan") from the International Finance Corporation ("IFC") to the Company's subsidiary operating in Tanzania, PanAfrican Energy Tanzania Limited ("PAET"). Base interest on the Loan is payable quarterly in arrears at 10% per annum on a 'pay-if-you-can-basis' using a formula to calculate the net cash available for such payments as at any given interest payment date. The participation interest expense is paid annually in arrears. It equates to 6.4% of PAET's net cash flows from operating activities net of net cash flows used in investing activities for the year. Such participation interest will continue until October 15, 2026 regardless of whether the Loan is repaid prior to its contractual maturity date. The decrease in participation interest expense is primarily a result of the decrease in PAET's net cash flows from operating activities net of net cash used in investing activities reducing the participation interest expense for Q1 2022 compared to Q1 2021.

Net foreign exchange losses are the result of transactions in foreign currencies recorded at the rate of exchange prevailing on the date of such transactions. 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. These foreign exchange gains and losses are recorded in finance expense.

The indirect tax is for value added tax ("VAT") associated with invoices to TANESCO for interest on late payments.

Reversal of Loss Allowance for Receivables

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

The reversal of loss allowance in Q1 2021 follows collection of TANESCO arrears of $0.8 million which had been previously allowed for and represents the excess of receipts over gas sales invoiced during the quarter. Please see "(Reversal of) Loss Allowance" in the Company's MD&A for the year ended December 31, 2021 for additional information.

Management's Discussion & Analysis cont.

Additional Profits Tax

	Three Months ended March 31	
$'000	2022	2021
APT	**952**	1,487

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 revenue 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 revenue 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 revenue 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 revenue over the term of the PSA. The forecast takes into account the timing of future development capital spending. As at March 31, 2022 the current portion of APT payable was $1.9 million (December 31, 2021: $8.5 million) with a long-term APT payable of $19.9 million (December 31, 2021: $20.9 million). APT of $8.5 million was paid in Q1 2022 based on the 2021 results (Q1 2021: $11.5 million based on 2020 results).

The effective APT rate for the quarter of 17.3% (Q1 2021: 17.1%) has been applied to Company Profit Gas revenue of $5.5 million (Q1 2021: $8.7 million). Accordingly, $1.0 million (Q1 2021: $1.5 million) of APT has been recorded in the Consolidated Interim Statements of Comprehensive Income for the quarter.

Working Capital

Working capital as at March 31, 2022 was $41.1 million (December 31, 2021: $41.8 million) and is detailed in the table below:

	As at			
$'000		March 31, 2022		December 31, 2021
Cash and cash equivalents		**66,993**		72,985
Trade and other receivables				
Songas	**10,904**		8,776	
TPDC	**10,604**		5,603	
TANESCO	**229**		2,042	
Industrial customers and other receivables	**15,696**		15,487	
Loss allowance	**(1,177)**	**36,256**	(1,177)	30,731
Prepayments		**1,022**		1,133
		104,271		104,849
Trade and other liabilities				
TPDC share of Profit Gas revenue[1]	**20,975**		21,911	
Songas	**1,697**		1,899	
Deferred income – take or pay contracts	**4,457**		5,215	
Other trade payables and accrued liabilities	**25,639**		17,751	
Current portion of long-term loan	**5,000**		5,000	
Current portion of APT	**1,905**	**59,673**	8,461	60,237
Tax payable		**3,462**		2,836
		63,135		63,073
Working capital		**41,136**		41,776

[1] The balance of $21.0 million payable to TPDC is the liability for TPDC's share of Profit Gas revenue, primarily related to unpaid gas deliveries to TANESCO. The majority of the settlement of this liability is dependent on receipt of payment from TANESCO for arrears. For their allocation of Profit Gas revenue, the Company paid TPDC $ $3.3 million in January 2022 and $3.4 million in April 2022.

Working Capital cont

Financial Instruments

Current financial instruments of the Company include cash and cash equivalents, trade and other receivables, trade and other liabilities and tax payable. The carrying values of the financial instruments approximate fair values due to their relatively short periods to maturity. The risks associated with the Company's financial instruments are primarily attributed to the inherent riskiness of cash, and the risk that trade and other receivables may not be paid when due. The Company mitigates these risks by (i) holding the majority of its cash outside of Tanzania in reputable international financial institutions primarily in Jersey and Mauritius which reduces geo-political risk; and (ii) monitoring and reviewing the trade and other receivables on a regular basis to determine if allowances are required for overdue amounts or action is required to restrict deliveries on past due accounts to reduce exposure on outstanding receivables. There are no restrictions on the movement of cash from Jersey, Mauritius or Tanzania.

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.

Working capital requirements

The Company expects to have sufficient cash flow from operating activities to maintain adequate working capital to cover both short-term and long-term obligations, including forecast debt and interest payments ($10.5 million) and capital expenditure ($35.7 million) for 2022. The Company hasn't incurred any losses from debtors in 2021 and Q1 2022 and does not expect to incur any losses from debtors in 2022. The Company maintains adequate cash and cash equivalents on hand to ensure it can meet all its capital expenditure obligations and deal with possible fluctuations in liquidity from operational problems including any potential impact from COVID-19. The Company does not anticipate any circumstances that are reasonably likely to occur that could significantly impact the Company's cash flows and liquidity.

TANESCO receivable

As at March 31, 2022 the current receivable from TANESCO was $0.2 million (December 31, 2021: $2.0 million), which was subsequently paid in in Q2 2022. During Q1 2022 the Company invoiced TANESCO $5.5 million for gas deliveries (Q1 2021: $6.5 million) and received $6.5 million in payments (Q1 2021: $7.3 million). Based on the consistent payments from TANESCO, the Company: (i) recognized all amounts invoiced for gas deliveries in Q1 2022 and Q1 2021 as revenue; and (ii) recognized $ nil during Q1 2022 (Q1 2021: $0.8 million) as a reversal of loss allowance relating to the amounts collected during the year that were applied towards the long-term TANESCO receivables previously allowed for.

The TANESCO long-term receivable as at March 31, 2022 was $26.5 million with a provision of $26.5 million compared to $26.5 million (with a provision of $26.5 million) as at December 31, 2021. Subsequent to March 31, 2022 the Company has invoiced TANESCO $6.4 million for April 2022 gas deliveries and TANESCO has paid the Company $7.1 million.

Capital Expenditures

The capital expenditures in Q1 2022 primarily related to the well workover program. The capital expenditures in Q1 2021 primarily related to well workover planning and design.

	Three Months ended March 31	
$'000	2022	2021
Pipelines, well workover and infrastructure	**14,014**	228
Other capital expenditures	**249**	4
	14,263	232

Capital Requirements

Except as described below, there are no contractual commitments for exploration or development drilling or other field development, either in the PSA or otherwise agreed, which would give rise to significant capital expenditure at Songo Songo Island. Any additional significant capital expenditure in Tanzania is discretionary.

Capital Expenditures cont.

Capital Requirements cont.

As at the date of this MD&A, the Company's only significant contractual commitment is in relation to contracts for the workover program. The Company concluded the onshore well remediation program comprising three wells (SS-3, SS-4 and SS-10) in April 2022. The SS-3 well was shut-in in 2012 due to excessive corrosion and sustained annulus pressure. Having returned to production on February 15, 2022, the SS-3 well has since been continually producing an average of 10 MMcfd. The SS-4 well was suspended in 2019 after it started producing sand. Currently not producing due to excessive liquid loading, the Company intends to mobilize a coiled tubing unit to lift the liquids and allow the SS-4 well to flow naturally. However, a recent upturn in industry activity means a suitable unit is unlikely to be available in Tanzania until Q3 2022. The SS-10 well was still producing prior to the workover program, but was also affected by progressive corrosion of its production tubing which would have ultimately threatened its safe operation. Following considerable delays due to downhole complications necessitating extensive milling and fishing, the workover of the well was completed on April 7, 2022, and was successfully returned to production on April 18, 2022. The total estimated gross cost for the workovers was $21.4 million. However, following considerable logistical and customs delays, increased service company costs, and surface and down hole technical issues, the total cost of the program increased to $31.6 million. As of March 31, 2022, $19.4 million was paid and the remaining $12.2 million is forecasted to be paid by the end of Q2 2022. Additional expenditure will also be necessary to mobilize the coiled tubing nitrogen unit to restart production from the SS-4 well.

In March 2022, one month ahead of schedule, the Company successfully completed construction and commissioning of feed gas compression facilities on the Songas gas processing facility. The installation of three 35 MMcfd reciprocating compressors was designed to ensure maximum gas throughput of the Songas gas processing plant at arrival pressures as low as 38 bar. The sustainability of such production is subject to future gas demand and the related performance of the current producing gas wells in the forthcoming years. The original price for the lump sum turnkey contract was $38.0 million, however price variations due to increased sea freight costs, a requirement to increase on site power generation capacity, design changes and a brief scheduling delay to avoid an extended plant shut down over the 2021 Christmas and New Year period have resulted in the total lump sum turnkey contract cost increasing to $41.7 million. $40.8 million of the turnkey contract cost has been incurred as of March 31, 2022 and a further $0.9 million is forecast to be paid in Q2 2022. In addition to the turnkey contract, a further $1.9 million of costs associated with the compression project have been incurred since the start of the project, resulting in a total project cost of $43.6 million.

In order to de-risk both the future development drilling and potential exploration drilling of prospective resources, the Company intends to carry out a 3D seismic acquisition program in 2022, budgeted at $20.0 million. Following initial discussions with the originally preferred service provider, the Company has sought further submissions and is currently reviewing commercial and technical proposals from a range of potential service providers . Physical execution of the 3D seismic acquisition program is planned for Q3 2022, but is dependent on obtaining environmental approvals in time to take advantage of suitable weather windows.

Long-term Receivables

	As at	
$'000	March 31, 2022	December 31, 2021
VAT Songas workovers	**2,205**	2,205
Lease deposit	**10**	10
	2,215	2,215

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 enabling the Company 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. Amounts not collected will be pursued through the mechanisms provided in the agreements with Songas.

The following table details the amounts receivable from TANESCO that do not meet revenue recognition criteria and therefore are not recorded in the consolidated financial statements:

	As at	
$'000	March 31, 2022	December 31, 2021
Total amounts invoiced to TANESCO	**118,823**	119,168
Trade receivable – TANESCO	**(229)**	(2,042)
Unrecognized amounts not meeting revenue recognition criteria[1]	**(92,102)**	(90,634)
Loss allowance	**(26,492)**	(26,492)
	–	–

[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.

Long-term Loan

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

The Loan is to be paid out through six semi-annual payments of $5.0 million starting October 15, 2022 and one final payment of $25.2 million due on October 15, 2025. The Company may voluntarily prepay all or part of the Loan but must simultaneously pay any accrued base interest costs related to the principal amount being prepaid. The Loan is an unsecured subordinated obligation of PAET and was guaranteed by the Company to a maximum of $30.0 million. The guarantee may only be called upon by IFC at maturity in 2025 and, subject to IFC approval and receipt of all required regulatory approvals, the Company, at its discretion, may issue shares in fulfillment of all or part of the guarantee obligation in 2025. Pursuant to the sale of a non-controlling interest in PAE PanAfrican Energy Corporation ("PAEM"), the parent company of PAET, the Company agreed with the IFC to reduce the outstanding amount of the Loan by the percentage interest sold of 7.9% ($4.8 million) before the fourth anniversary of the first drawdown. PAET made this payment on October 16, 2019.

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

Outstanding Shares

The Class A Shares are convertible at any time at the option of the holder into Class B Shares on a one-for-one basis. Subject to the terms and conditions of conversion specified in the memorandum of association and articles of association of the Company, the Class B Shares are convertible into Class A Shares on a one for one basis if an offer is made to purchase Class A Shares that: (i) must, by reason of applicable securities legislation or the requirements of a stock exchange on which the Class A Shares are listed, be made to all or substantially all of the holders of Class A Shares; and (ii) is not made concurrently with an offer to purchase Class B Shares that is identical to the offer to purchase Class A Shares and that has no condition attached other than the right not to take up and pay for shares tendered if no shares are purchased pursuant to the offer for Class A Shares. The conversion right does not come into effect under certain events specified in the memorandum of association of the Company, including, without limitation, the prior delivery to the Company's transfer agent and to the Secretary of the Company of a certificate signed by one or more shareholders owning more than 50% of the then outstanding Class A Shares.

Pursuant to the substantial issuer bid of CDN$40.0 million completed in January 2021 ("2021 SIB") the Company purchased and canceled 6,153,846 Class B Shares. Pursuant to the NCIB commenced on June 21, 2021, the Company has purchased and canceled 41,200 Class B Shares as of March 31, 2022. 1,750,495 Class A Shares and 18,192,414 Class B Shares were outstanding as at March 31, 2022 and May 19, 2022. See "Substantial Issuer Bid, Normal Course Issuer Bid and Dividends" in this MD&A.

Cash Flow Summary

	Three Months ended March 31	
$'000	2022	2021
Operating activities		
Net income	**8,103**	4,295
Non-cash adjustments	**9,033**	5,081
Interest expense	**1,464**	1,409
Changes in non-cash working capital[1]	**(14,523)**	(11,579)
Net cash flows from (used in) operating activities	**4,077**	(794)
Net cash used in investing activities	**(7,176)**	(295)
Net cash used in financing activities	**(3,100)**	(34,942)
Decrease in cash	**(6,199)**	(36,031)

[1] See Consolidated Interim Statements of Cash Flows

The Company's net cash flows from operating activities for Q1 2022 was $4.1 million compared to a $0.8 million outflow for the comparable prior year period. This was primarily a result of the increase in net income and non-cash adjustments which was partially offset by negative changes in non-cash working capital relative to the comparable prior year period. The increase in net cash used in investing activities over the comparable prior year period was mainly a result of the well workover program in Q1 2022. The decrease in net cash used in financing activities for Q1 2022 over the comparable prior period was primarily a result of the 2021 SIB of CDN$40.0 million.

Related Party Transactions

The Chair of the Company's Board of Directors is counsel to Burnet, Duckworth & Palmer LLP, a law firm that provides legal advice to the Company and its subsidiaries. During the quarter ended March 31, 2022 fees for services provided by this firm totalled $0.2 million (Q1 2021: $0.1 million). As at March 31, 2022 the Company had a total of $0.1 million (December 31, 2021: $0.1 million) recorded in trade and other payables in relation to related parties.

Substantial Issuer Bid, Normal Course Issuer Bid and Dividends

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

On June 21, 2021 the Company commenced a NCIB to purchase Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. Purchases pursuant to the NCIB are made by Research Capital Corporation ("Research Capital") on behalf of the Corporation and will not exceed 500,000 Class B Shares, representing approximately 2.74% of the total outstanding Class B Shares. The NCIB will be in effect until June 21, 2022 (or until such time as the maximum number of Class B Shares have been purchased). Purchases of Class B Shares are made by Research Capital based on the parameters prescribed by the TSXV and applicable securities laws. The acquisition price of Class B Shares under the NCIB will not exceed the market price of the Class B Shares at the time of acquisition and the funds available to acquire the Class B Shares will come from the Company's working capital and cash flow. All Class B Shares purchased under the NCIB will be canceled. As of March 31, 2022 and May 19, 2022, an aggregate of 41,200 Class B Shares were repurchased by the Company pursuant to the NCIB at an average price per Class B Share of CDN$5.20. Shareholders may obtain a copy of the notice regarding the NCIB filed with the TSXV from the Company without charge.

All issued capital stock is fully paid.

Dividend Summary

Declaration date	Record date	Payment date	Amount per share *(CDN$)*
February 24, 2022	March 31, 2022	April 15, 2022	0.10
November 9, 2021	December 31, 2021	January 15, 2022	0.10
September 9, 2021	September 29, 2021	October 15, 2021	0.10
June 4, 2021	June 30, 2021	July 15, 2021	0.10
February 23, 2021	March 31, 2021	April 15, 2021	0.10

Consolidation

The companies which are being consolidated for the purposes of this MD&A are:

Company	Incorporated	Holding
Orca Energy Group Inc.	British Virgin Islands	Parent Company
PAE PanAfrican Energy Corporation	Mauritius	92%
PanAfrican Energy Tanzania Limited	Jersey	92%
Orca Exploration UK Services Limited	United Kingdom	100%

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 after December 31, 2021, the Company may demand settlement and Swala is obligated to comply by transferring and returning the Class A common shares of PAEM sold to Swala. The aggregate value of these shares will equal the amount of the outstanding distributions. As at March 31, 2022, the Company has not received any distributions or recorded any amount receivable related to the Preference Shares.

Swala is obligated to redeem 20% of the Preference Shares for cash annually starting from December 31, 2021 until all shares are redeemed. If at any time Swala does not redeem the required number of Preference Shares for cash, Swala is obligated to redeem the Preference Shares by transferring and returning the Class A common shares of PAEM sold to Swala's wholly owned subsidiary. The aggregate value of these Class A common shares will equal the amount of any outstanding redemption. As of March 31, 2022, the Company recorded $0.7 million as a loss allowance with respect to the Preference Shares.

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

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

Contingencies

Taxation

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

Contingencies cont.

Taxation cont.

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

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

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

Management, with advice from its legal counsel, has reviewed the Company's position on the objections and appeals related to the disputed amounts and has concluded that no further provision is required. However, if the TRA reassesses the Company's tax returns for open taxation years on a similar basis, the Company may be required to make future deposits to object such assessments.

The process of appealing assessments issued by TRA start by initially filing an appeal with TRA. If this is not successful, claims can be taken to higher authorities, starting with the TRAB, followed by an appeal to the Tax Revenue Appeals Tribunal and finally to the CAT. See Note 21 of the audited consolidated financial statements for the year ended December 31, 2021 for a full discussion. Please see "Contingencies-Taxation" in the Company's MD&A for the year ended December 31, 2021 for additional information.

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

Quarterly Results Summary

	2022	2021				2020		
Figures in $'000 except where otherwise stated	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**27,452**	24,819	22,271	20,301	18,631	21,980	20,859	17,320
Net income attributable to shareholders	**7,391**	1,548	7,613	3,246	3,963	7,375	1,487	6,254
Earnings per share – basic and diluted ($)	**0.37**	0.08	0.38	0.16	0.19	0.28	0.06	0.27
Net cash flows from (used in) operating activities	**4,077**	18,521	12,132	10,251	(794)	19,369	12,793	13,516
Capital expenditures	**14,263**	12,496	3,715	10,167	232	16,315	9,412	1,005

Quarterly Results Summary cont.

Revenue increased during Q3 2020 and Q4 2020 as the power sector demand for gas increased to compensate for a reduction in the availability of hydropower. Revenue decreased during Q1 2021 as a result of decreased deliveries to TANESCO and TPDC due to increased availability of hydropower with the onset of the seasonal rains resulting in a decrease in demand for gas power generation. Revenue increased during Q2 2021 as a result of increased sales to the industrial sector and lower TPDC share of revenue as an outcome of increased capital expenditures and higher Cost Gas revenue recoveries by the Company. Revenue increased during Q3 2021 as a result of increased sales to the power sector which was partially offset by increased TPDC share of revenue as an outcome of reduced capital expenditures and lower Cost Gas revenue recoveries by the Company. Revenue increased during Q4 2021 as a result of increased sales to the industrial sector. Revenue increased in Q1 2022 as a result of increased sales to the power sector and decreased TPDC share of revenue as a result of increased capital expenditures.

Net income attributable to shareholders was affected by several factors, other than changes in revenue, including:

- the decrease in Q3 2020 was primarily a result of a loss allowance of $5.3 million in respect of the disputed 2008-10 output VAT case with the TRA;
- the increase in Q4 2020 was partially due to the collection of $3.5 million of TANESCO long-term arrears resulting in an increase in the reversal of loss allowances;
- the decrease in Q1 2021 and Q2 2021 was a result of a lower collection of TANESCO arrears as compared to Q4 2020;
- the increase in Q3 2021 was a result of lower general and administrative expenses and lower indirect tax as compared to Q2 2021; and
- the decrease in Q4 2021 was a result of higher general and administrative expenses and higher loss allowance for receivables compared to Q3 2021;
- the increase in Q1 2022 was a result of recording loss allowance for receivables in the previous quarter.

In addition to the factors impacting net income attributable to shareholders, net cash flows from operating activities were primarily affected by the timing and amount of payments received from TANESCO. The decrease in Q3 2020 resulted from a combination of decreased collections from TANESCO compared to prior periods and a $5.3 million payment to the TRA. Correspondingly, the increase in Q4 2020 resulted from higher collections from TANESCO compared to the previous quarter. The decrease in Q1 2021 and consequent increases in Q2, Q3 and Q4 2021 were mainly a result of the annual 2020 current liability associated with APT paid in Q1 2021. The decrease in Q1 2022 was primarily a result of the payment of the annual 2021 current APT liability.

Capital expenditures in Q2 2020 primarily relate to the refrigeration project and flowline decoupling and construction work. Capital expenditures in Q3 2020 and Q4 2020 mainly relate to the installation of compression. Capital expenditures in Q1 2021 were mainly related to well workover planning and design. Capital expenditures in Q2 2021 mainly relate to the installation of compression. Capital expenditures in Q3 and Q4 2021 and Q1 2022 were mainly related to the well workover program.

Non-GAAP Financial Measures and Ratios

In this MD&A, the Company has disclosed the following non-GAAP financial measures, non-GAAP ratios and supplementary financial measures: capital expenditures, operating netback, operating netback per mcf, working capital and net cash flows from operating activities per share.

These non-GAAP financial measures and ratios disclosed in this MD&A do not have any standardized meaning under IFRS and may not be comparable to similar financial measures disclosed by other issuers. These non-GAAP financial measures and ratios should not, therefore, be considered in isolation or as a substitute for, or superior to, measures and ratios of Company's financial performance defined or determined in accordance with IFRS. These non-GAAP financial measures and ratios are calculated on a consistent basis from period to period.

Capital expenditures

Capital expenditures is a useful measure as it provides an indication of our investment activities. The most directly comparable financial measure is net cash from (used in) investing activities. A reconciliation to the most directly comparable financial measure is as follows:

	Three Months ended March 31	
$'000	2022	2021
Pipelines, well workovers and infrastructure	**14,014**	228
Other capital expenditures	**249**	4
Capital expenditures	**14,263**	232
Change in non-cash working capital	**(7,087)**	63
Net cash used in investing activities	**7,176**	295

Non-GAAP Financial Measures and Ratios cont.

Operating netback

Operating netback is calculated as revenue less processing and transportation tariffs, TPDC's revenue share, and operating and distribution costs. (see "Operating Netback"). The operating netback summarizes all costs that are associated with bringing the gas from the Songo Songo gas field to the market, and is a measure of profitability. A reconciliation to the most directly comparable financial measure is as follows:

	Three Months ended March 31	
$'000	2022	2021
Revenue	**27,452**	18,631
Production, distribution and transportation expenses	**(3,534)**	(3,212)
Net Production Revenue	**23,918**	15,419
Less current income tax adjustment (recorded in revenue)	**(2,159)**	(2,874)
Operating netback	**21,759**	12,545
Sales volumes MMcf	**6,625**	5,282
Netback $/mcf	**3.29**	2.37

Non-GAAP Ratios

Operating netback per mcf

Operating netback per mcf represent the profit margin associated with the production and sale of Additional Gas and is calculated by taking the operating netback and dividing it by the volume of Additional Gas delivered and sold. This is a key measure as it demonstrates the profit generated from each unit of production.

Supplementary Financial Measures

Working capital

Working capital is defined as current assets less current liabilities, as reported in the Company's Consolidated Statements of Financial Position. It is an important measure as it indicated the Company's ability to meet its financial obligations as they fall due.

Net cash flows from operating activities per share

Net cash flows from operating activities per share is calculated as net cash flows from operating activities divided by the weighted average number of shares, similar to the calculation of earnings per share. Net cash flow from operations is an important measure as it indicates the cash generated from the operations that is available to fund ongoing capital commitments.

Use of Estimates and Judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The reader is referred to the Company's December 31, 2021 audited consolidated financial statements for a description of estimates and judgments.

Business Risks

The Company operates internationally in the oil and gas industry and is exposed to various market and operational risks. For a discussion of these risks, please see "Business Risks" in the MD&A for the year ended December 31, 2021 and the material change report filed on January 24, 2020 available on SEDAR at www.sedar.com or on the Company's website.

Country risk

The disputed actions taken by the TRA in 2020 to seize funds from PAET's bank account using Agency Notices further highlight the country risks of operating in Tanzania. There is no assurance that such disputes will be resolved in favor of the Company and such actions may have a material adverse effect on our activities and ability to operate and monetize our interests in Tanzania.

Forward Looking Statements

This MD&A contains forward-looking statements or information (collectively, "forward-looking statements") within the meaning of applicable securities legislation. All statements, other than statements of historical fact included in this MD&A, which address activities, events or developments that Orca expects or anticipates to occur in the future, are forward-looking statements. Forward-looking statements often contain terms such as may, will, should, anticipate, expect, continue, estimate, believe, project, forecast, plan, intend, target, outlook, focus, could and similar words suggesting future outcomes or statements regarding an outlook. More particularly, this MD&A contains, without limitation, forward-looking statements pertaining to the following: the result of the Company's negotiations relating to additional gas contracts with industrial customers; the ability for the SS-4 well to flow naturally following the utilisation of a coiled nitrogen unit to potentially unload liquids from the wellbore and the ability to increase ; the timing of when the coiled nitrogen unit and other equipment will be on location; the ability to increase current production following unloading of excess liquid on the SS-4 well; the demand for gas and Orca's average gross gas sales are in line with the Company's forecasts; the results of discussions with the MoE, TPDC and TANESCO relating to the increase in gas supply; the timing for when new power generation facilities are commissioned; the amount of debt and interest payments and capital expenditures are in line with the Company's forecasts; the Company's expectations regarding supply and demand of natural gas; the Company's expectations regarding timing and cost for the completion of installation of compression on the Songas Infrastructure and the well workover program; the Company's expectations as to the efficacy of the compression and its ability to sustain gas production at existing levels to the end of our license; anticipated production volumes and increased well deliverability as a result of the installation of compression on the Songas Infrastructure and the completion of the well workover program; the Company's expectations regarding timing and cost for the completion of the 3D seismic acquisition program; the results of the Company's review of commercial and technical proposals relating to the 3D seismic acquisition program; the ability for the Company to obtain environmental approvals and the availability of suitable weather windows to conduct the 3D seismic acquisition program; current and potential production capacity of the Songo Songo gas field; the receipt of the payment of arrears from TANESCO; the Company's expectation that there will continue to be no restrictions on the movement of cash from Jersey, Mauritius or Tanzania; the Company's expectation that it will not incur any losses from debtors; the Company's expectation that all planned capital expenditures be funded out of existing working capital and cash flow generated by current operations; the timing and effective rate of the APT payable by the Company; the Company's ability to produce additional volumes; the Company's expectation that it can expand and maintain the deliverability of gas volumes in excess of the existing Songas Infrastructure; the potential impact on the Company resulting from the further spread of COVID-19; the Company's expectations regarding the impact on operations resulting from the GoT's new restrictions in response to COVID-19; the Company's expectations regarding changes to its tax liabilities and the results of its operations as a result of amendments made to the ITA, 2004, the WLMAA, 2017 and the implementation of further legislation; and expectations in respect of its appeals on the decisions of the TRA and TRAB and other statements under "Contingencies – Taxation"; In addition, statements relating to "reserves" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be produced profitably in the future. The recovery and reserve estimates of the Company's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Although management believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, access to resources and infrastructure, performance or achievement since such expectations are inherently subject to significant business, economic, operational, competitive, political and social uncertainties and contingencies.

These forward-looking statements involve substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control, and many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by the Company, including, but not limited to: failure to receive payments from TANESCO; risks related to the implementation of potential financing solutions to resolve the TANESCO arrears; risk that the well workovers are unsuccessful or determined to be unfeasible; risk of a lack of access to Songas processing and transportation facilities; risk that the Company may be unable to complete additional field development to support the Songo Songo production profile through the life of the license; risk that the Company may be unable to develop additional supply or increase production values; risks associated with the Company's ability to complete sales of Additional Gas; potential negative effect on the Company's rights under the PSA and other agreements relating to its business in Tanzania as a result of recently enacted legislation, as well as the risk that such legislation will create additional costs and time connected with the Company's business in Tanzania; risks regarding the uncertainty around evolution of Tanzanian legislation; risk that the Company will not be successful in appealing claims made by the TRA and may be required to pay additional taxes and penalties; the impact of general economic conditions in the areas in which the Company operates; civil unrest; the susceptibility of the areas in which the Company operates to outbreaks of disease; industry conditions; changes in laws and regulations including the adoption of new environmental laws and regulations, impact of local content regulations and variances in how they are interpreted and enforced; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices, foreign exchange or interest rates; stock market volatility; competition for, among other things, capital, oil and gas field services and skilled personnel; failure to obtain required equipment for field development; delays in development plans; failure to obtain expected results from the drilling or workover of wells; effect of changes to the PSA on the Company as a result of the implementation of new government policies for the oil and gas industry; changes in laws; imprecision in reserve estimates; the production and growth potential of the Company's assets; obtaining required approvals of regulatory authorities; failure to recommence production from SS-4 following its workover, failure to complete the 3D seismic acquisition program on the timeline or at the cost anticipated; risks associated with negotiating with foreign governments; inability to satisfy debt conditions of financing; failure to successfully negotiate agreements; risk that the Company will not be able to fulfil its contractual obligations; reduced global economic activity as a result of COVID-19, including lower demand for natural gas and a reduction in the price of natural gas; the potential impact of COVID-19 on the health of the Company's employees, contractors, suppliers, customers and other partners and the risk that the Company and/or such persons are or may be restricted or prevented (as a result of quarantines, closures or otherwise) from conducting business activities for undetermined periods of time; and the impact of actions taken

Forward Looking Statements cont.

by governments to reduce the spread of COVID-19, including declaring states of emergency, imposing quarantines, border closures, temporary business closures for companies and industries deemed non-essential, significant travel restrictions and mandated social distancing, and the effect on the Company's operations, access to customers and suppliers, availability of employees and other resources; and such additional risks listed under "Business Risks" in the Company's MD&A for the year ended December 31, 2021. In addition, there are risks and uncertainties associated with oil and gas operations, therefore the Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by these forward-looking statements will transpire or occur, or if any of them do so, what benefits the Company will derive therefrom. Readers are cautioned that the foregoing list of factors is not exhaustive.

Such forward-looking statements are based on certain assumptions made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate in the circumstances, including, but not limited to, the ability of the Company to negotiate Additional Gas sales contracts; the ability of the Company to complete additional developments and increase its production capacity; the actual costs to complete the Company's workover program, and the 3D seismic acquisition program are in line with estimates; that there will continue to be no restrictions on the movement of cash from Mauritius, Jersey or Tanzania; the impact of COVID-19 on the demand for and price of natural gas, volatility in financial markets, disruptions to global supply chains and the Company's business, operations, access to customers and suppliers, availability of employees to carry out day-to-day operations, and other resources; that the Company will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Company will successfully negotiate agreements; receipt of required regulatory approvals; the ability of the Company to increase production as required to meet demand; infrastructure capacity; commodity prices will not deteriorate significantly; the ability of the Company to obtain equipment and services in a timely manner to carry out exploration, development and exploitation activities; future capital expenditures; availability of skilled labour; timing and amount of capital expenditures; uninterrupted access to infrastructure; the impact of increasing competition; conditions in general economic and financial markets; effects of regulation by governmental agencies; that the Company's appeal of various tax assessments will be successful; current or, where applicable, proposed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; the effect of new environmental and climate-change related regulations will not negatively impact the Company;; and other matters.

The forward-looking statements contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Oil and Gas Advisory

The recovery and reserve estimates of the Company's conventional natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided herein. All of the reserves referenced herein are based on McDaniel's forecast pricing as at December 31, 2021 and December 31, 2020, as applicable.

All the Company's reserves are located in Tanzania. Reserves included herein are stated on a Company gross reserves basis unless noted otherwise. Company gross reserves are the total of the Company's working interest share in reserves before deduction of royalties owned by others and without including any royalty interests of the Company, and are based on the Company's 92.07 percent ownership interest in the reserves following the transaction with Swala Oil & Gas (Tanzania) plc. Additional reserves information required under NI 51-101 is included in Orca's reports relating to reserves data and other oil and gas information under NI 51-101, which are filed on its profile on SEDAR at www.sedar.com.

"BOEs" may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent (6Mcf: 1 Bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

For certainty, all referenced herein to "production", "gross daily sales", "gas sales" and "Additional Gas sales" are references to conventional natural gas production, conventional natural gas daily sales, conventional natural gas sales and conventional natural gas sales, which are classified as Additional Gas in accordance with the PSA, respectively.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com.

Glossary

mcf	Thousand standard cubic feet
MMcf	Million standard cubic feet
Bcf	Billion standard cubic feet
Tcf	Trillion standard cubic feet
MMcfd	Million standard cubic feet per day
MMbtu	Million British thermal units
1P	Proven reserves
2P	Proven and probable reserves
kWh	Kilowatt hour
MW	Megawatt
$	United States dollars
CDN$	Canadian dollars

Q1 2022 Interim Financial Statements and Notes

NOTIFICATION OF CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited)

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

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Financial Position (Unaudited)

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

See accompanying notes to the condensed consolidated interim financial statements.

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

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

		Three Months ended March 31	
$'000	Note	2022	2021
OPERATING ACTIVITIES			
Net Income		**8,103**	4,295
Adjustment for:			
Depletion and depreciation	10	**5,654**	3,812
Indirect tax	8	**220**	199
Stock based compensation recovery	14	**(16)**	(456)
Deferred income taxes expense (recovery)		**2,479**	(22)
Additional Profits Tax		**952**	1,487
Unrealized (gain) loss on foreign exchange		**(256)**	61
Interest expense	8	**1,464**	1,409
Change in non-cash working capital	19	**(14,523)**	(11,579)
Net cash flows from (used in) operating activities		**4,077**	(794)
INVESTING ACTIVITIES			
Capital expenditures	10	**(7,176)**	(295)
Net cash used in investing activities		**(7,176)**	(295)
FINANCING ACTIVITIES			
Lease payments		**(21)**	(21)
Substantial issuer bid	14	**-**	(31,872)
Normal course issuer bid	14	**(43)**	-
Interest paid	8	**(1,458)**	(1,412)
Dividends paid to shareholders	14	**(1,578)**	(1,637)
Net cash used in financing activities		**(3,100)**	(34,942)
Decrease in cash		**(6,199)**	(36,031)
Cash and cash equivalents at the beginning of the period		**72,985**	104,190
Effect of change in foreign exchange on cash for the period		**207**	(113)
Cash and cash equivalents at the end of the period		**66,993**	68,046

See accompanying notes to the condensed consolidated interim financial statements.

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

$'000	Capital stock	Contributed surplus	Accumulated other comprehensive loss	Accumulated income	Non-Controlling interest	Total
Note	*14*			*14*	*20*	
Balance as at December 31, 2021	47,454	–	(177)	21,061	3,116	71,454
Share repurchase	(21)	–	–	(22)	–	(43)
Dividends declared	–	–	–	(1,596)	–	(1,596)
Foreign currency translation adjustment on foreign operations	–	–	(23)	–	–	(23)
Net income	–	–	–	7,391	712	8,103
Balance as at March 31, 2022	**47,433**	**–**	**(200)**	**26,834**	**3,828**	**77,895**

$'000	Capital stock	Contributed surplus	Accumulated other comprehensive loss	Accumulated income	Non-Controlling interest	Total
Note	*14*			*14*	*20*	
Balance as at December 31, 2020	63,242	–	(171)	27,277	1,523	91,872
Share repurchase	(15,710)	–	–	(15,965)	–	(31,675)
Share repurchase costs	–	–	–	(197)	–	(197)
Dividends declared (1,590))	–	–	–	(1,590)	–	
Foreign currency translation adjustment on foreign operations	–	–	9	–	–	9
Net income	–	–	–	3,963	332	4,295
Balance as at March 31, 2021	47,533	–	(162)	13,488	1,855	62,714

See accompanying notes to the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

General Information

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

The condensed consolidated interim financial statements of the Company as at March 31, 2022 and for the three months ended March 31, 2022 comprise the accounts of the Company and its subsidiaries (collectively, the "Company" or "Orca Energy") and were authorized for issue in accordance with a resolution of the directors on May 19, 2022. The Company is controlled by Shaymar Limited who is the registered holder of 24.6% of the equity and controls 71.4% of the total votes of the Company. The shares are held in a trust that is independently managed for the beneficiaries.

1. Nature of Operations

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

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

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

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

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

2. Basis of Preparation

Statement of Compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", and do not include all information required for full annual financials and should be read in conjunction with the audited financial statements for the year ended December 31, 2021.

Basis of Measurement

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

COVID-19

There has been no significant change in the Company's business during Q1 2022 as a result of the ongoing coronavirus pandemic ("COVID-19"). The Tanzanian government has introduced new restrictions and started a vaccination program in an effort to control the spread of COVID-19 however given the steps already taken by the Company, no significant impact on our operations or business results is expected as a result of the new restrictions. The current situation is dynamic and the ultimate duration and magnitude of the impact on the Tanzanian economy and the financial effect on the Company are not known at this time.

Climate change regulations

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

3. Summary of Significant Accounting Policies

The Company's accounting policies are set forth in Note 3 to the audited consolidated financial statements for the year ended December 31, 2021. There have been no changes in accounting policies for the three month period ended March 31, 2022 and the policies have been applied consistently to all periods presented in the condensed consolidated interim financial statements.

4. Use of Estimates and Judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ materially from these estimates. In preparing these interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2021.

See Note 4 of the audited consolidated financial statements for the year ended December 31, 2021 for a full discussion.

5. Risk Management

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

A. Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from TANESCO, Songas and TPDC. The carrying amount of accounts receivable and the long-term receivable represents the maximum credit exposure. As at March 31, 2022 and December 31, 2021, provisions exist against all of the long-term TANESCO receivable, gas plant operations and capital expenditure receivables from Songas, and a receivable of $0.5 million from one industrial customer. No write-off of any receivables occurred in Q1 2022 (see Note 9).

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

B. Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its liabilities. Cash forecasts identifying liquidity requirements of the Company are produced on a regular basis. These are reviewed to ensure sufficient funds exist to finance the Company's current operational and investment cash flow requirements. At March 31, 2022 the Company has working capital of $41.1 million which is net of $63.1 million of financial liabilities with regards to trade and other payables of which $26.3 million is due within one to three months, $ nil is due within three to six months, and $36.8 million is due within six to twelve months (see Note 11).

As at March 31, 2022 approximately 33% of the current liabilities relate to TPDC (see Note 11). The amounts due to TPDC represent its share of Profit Gas. In accordance with the terms of the PSA, TPDC is entitled to the payment of its share of Profit Gas on a quarterly basis proportional to the cash receipts during the quarter. A substantial proportion of the TPDC liability is associated with the long-term TANESCO arrears and payments to TPDC are made when cash is received for the arrears.

COVID-19 has reduced travel throughout the world in 2022 and 2021. Tourism is a major source of revenue and foreign currency for Tanzania and the decrease in travel has resulted in a reduction of foreign currency flowing into the country. It has been more difficult for the Company to convert Tanzanian shillings to United States dollars compared to prior years, however, as at the date of this report, this has not significantly impacted PAET's ability to meet its United States dollar obligations. There is a risk that in the future the Company may not be able to convert Tanzanian shillings to United States dollars as and when required.

6. Segment Information

The Company has one reportable industry segment which is international exploration, development and production of petroleum and natural gas. During Q1 2022 and 2021 the Company's producing assets were entirely located in Tanzania.

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

7. Revenue

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

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

8. Finance Income and Expense

Finance income

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

Finance expense

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

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

The indirect tax is for value added tax ("VAT") associated with invoices to TANESCO for interest on late payments.

9. Current Trade and Other Receivables

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

Songas

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

TPDC

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

Reversal of loss allowance for receivables

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

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

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

10. Capital Assets

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

In determining the depletion charge the Company takes into account an estimate of future development costs, the capital expenditure required to ensure the Company can produce the required gas volumes to meet its contractual obligations for the remaining life of the license. As at March 31, 2022 the estimated future development costs required to bring the total proved reserves to production were $12.8 million (December 31, 2021 $26.8 million). In Q1 2022 the Company recorded depreciation of $0.2 million (Q1 2021: $0.01 million) in general and administrative expenses.

Right-of-use assets

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

Lease liabilities

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

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

11. Trade and Other Liabilities

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

TPDC share of Profit Gas

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

Under the PSA revenue sharing mechanism, the Company adjusts TPDC's Profit Gas share by the "Adjustment Factor". The Adjustment Factor is equal to the amount necessary to fully pay and discharge the PAET liability for taxes on income derived from petroleum operations. A significant percentage of the settlement of the $21.0 million liability to TPDC is dependent on receipt of payment from TANESCO for long-term arrears that have been fully allowed for.

12. Long-term Receivables

$'000	As at March 31, 2022	As at December 31, 2021
Amounts invoiced to TANESCO	**118,823**	119,168
Trade receivables – TANESCO	**(229)**	(2,042)
Unrecognized amounts not meeting revenue recognition criteria[1]	**(92,102)**	(90,634)
Loss allowance	**(26,492)**	(26,492)
Net TANESCO receivable	**–**	–
VAT – Songas workovers	**2,205**	2,205
Lease deposit	**10**	10
	2,215	2,215

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

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

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

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

13. Long-term Loan

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

The Loan is to be paid out through six semi-annual payments of $5.0 million starting October 15, 2022 and one final payment of $25.2 million due on October 15, 2025. The Company may voluntarily prepay all or part of the Loan but must simultaneously pay any accrued base interest costs related to the principal amount being prepaid. The Loan is an unsecured subordinated obligation of PAET and was initially guaranteed by the Company to a maximum of $30.0 million. The guarantee may only be called upon by IFC at maturity in 2025 and, subject to IFC approval and receipt of all required regulatory approvals, the Company, at its discretion, may issue shares in fulfillment of all or part of the guarantee obligation in 2025. Pursuant to the sale of the non-controlling interest in PAEM, the parent company of PAET, the Company agreed with the IFC to reduce the outstanding amount of the Loan by the percentage interest sold of 7.9% ($4.8 million) before the fourth anniversary of the first drawdown. PAET made this payment on October 16, 2019.

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

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

14. Capital Stock

Authorised

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

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

Changes in the capital stock

	As at					
	March 31, 2022			December 31, 2021		
Number of shares	Authorised (000)	Issued (000)	Amount ($'000)	Authorised (000)	Issued (000)	Amount ($'000)
Class A Shares	**50,000**	**1,750**	**983**	50,000	1,750	983
Class B Shares	**100,000**	**18,192**	**46,450**	100,000	18,203	46,471
First preference shares	**100,000**	**–**	**–**	100,000	–	–
	250,000	**19,942**	**47,433**	250,000	19,953	47,454

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

Changes in stock appreciation rights ("SARs")

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

14. Capital Stock cont.

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

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

Change in Restrictive Stock Units ("RSUs")

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

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

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

As SARs and RSUs are settled in cash, they are re-valued at each reporting date using the Black-Scholes option pricing model with the resulting liability being recognized in trade and other liabilities. In the valuation of stock appreciation rights and restricted stock units as at March 31, 2022, the following assumptions have been made: a risk free rate of interest of 1.0% (December 31, 2021: 1.0%), stock volatility of 30.0% to 32.0% (December 31, 2021: 26.6% to 37.8%), 5% forfeiture (December 31, 2021: 5%) and a closing stock price of CDN$5.18 (December 31, 2021: CDN$5.40) per Class B share. The valuation of the SARs and RSUs awards is increased to reflect the amount of dividends paid between the award date to the time of exercise.

	As at	
$'000	March 31, 2022	December 31, 2021
SARs	**573**	727
RSUs	**322**	326
	895	1,053

Dividend summary

Declaration date	Record date	Payment date	Amount per share *(CDN$)*
February 24, 2022	March 31, 2022	April 15, 2022	0.10
November 9, 2021	December 31, 2021	January 15, 2022	0.10
September 9, 2021	September 29, 2021	October 15, 2021	0.10
June 4, 2021	June 30, 2021	July 15, 2021	0.10
February 23, 2021	March 31, 2021	April 15, 2021	0.10

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

15. Earnings Per Share

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

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

16. Related Party Transactions

The Chair of the Company's Board of Directors is counsel to Burnet, Duckworth & Palmer LLP, a law firm that provides legal advice to the Company and its subsidiaries. During the quarter ended March 31, 2022 fees for services provided by this firm totalled $0.2 million (Q1 2021: $0.1 million).

As at March 31, 2022 the Company had a total of $0.1 million (December 31, 2021: $0.1 million) recorded in trade and other payables in relation to related parties.

17. Contractual Obligations and Committed Capital Investments

Protected Gas

Under the terms of the Gas Agreement for the Songo Songo project ("Gas Agreement"), in the event that there is a shortfall/insufficiency in Protected Gas as a consequence of the sale of Additional Gas, the Company is liable to pay the difference between the price of Protected Gas ($0.55/MMbtu escalated) and the price of an alternative feedstock multiplied by the volumes of Protected Gas up to a maximum of the volume of Additional Gas sold which was 263 Bcf as at March 31, 2022 (December 31, 2021: 257 Bcf). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the term of the Protected Gas delivery obligation to July 2024.

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

Capital Commitments

Tanzania

At the date of this report, the Company's significant outstanding contractual commitment is in relation to the workover program originally priced at $21.4 million which has increased through variations to $31.6 million. As of March 31, 2022, $19.4 million of the workover contracts has been paid, the remaining capital expenditures of $12.2 million will be paid in Q2 2022.

18. Contingencies

Upstream and Downstream Activities

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

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

18. Contingencies cont.

Cost Recovery

TPDC conducted an audit of historical costs (the "Cost Pool") and in 2011 disputed approximately $34.0 million of costs that had been recovered from the Cost Pool from 2002 through to 2009. In 2014 a substantial portion of the disputed costs were agreed to be cost recoverable by TPDC with $25.4 million remaining in dispute. Under the dispute mechanism outlined in the PSA, parties are to agree the appointment of an independent specialist to assist the parties in reaching agreement on costs that are still subject to dispute. In 2014, prior to appointing an independent specialist, TPDC suspended the process. From 2010 to 2015 TPDC rejected a further $16.8 million of costs. In 2016 the Tanzanian Petroleum Upstream Regulatory Authority ("PURA") assumed the role of auditing the PSA cost pool from TPDC and for 2016 to 2020 have rejected all costs pertaining to downstream development amounting to $15.0 million and a further $9.5 million of other costs. To date there remains a total of $66.7 million of costs that have been queried or rejected by TPDC or PURA through the cost pool audit process.

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

Taxation

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

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

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

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

18. Contingencies cont.

Taxation cont.

Management, with advice from its legal counsel, has reviewed the Company's position on the objections and appeals related to the disputed amounts and has concluded that no further provision is required. However, if the TRA reassesses the Company's tax returns for open taxation years on a similar basis, the Company may be required to make future deposits to object such assessments.

The process of appealing assessments issued by TRA start by initially filing an appeal with TRA. If this is not successful, claims can be taken to higher authorities , starting with the Tanzania Revenue Appeals Board ("TRAB"), followed by an appeal to the Tax Revenue Appeals Tribunal ("TRAT") and finally to the Court of Appeal of Tanzania ("CAT"). See Note 21 of the audited consolidated financial statements for the year ended December 31, 2021 for a full discussion.

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

19. Change in Non-Cash Operating Working Capital

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

20. Non-Controlling Interest

The Company sold 7.9% (7,933 Class A common shares) of PAEM to a wholly owned subsidiary of Swala Oil & Gas (Tanzania) plc. ("Swala") in 2018 for $15.4 million cash and $4.0 million of Swala convertible preference shares ("Preference Shares") pursuant to a share purchase agreement. The Preference Shares entitle the Company to a 10% per annum distribution payable 15 days after each quarter end commencing from the closing date, January 16, 2018. Payment of the quarterly distributions is at the discretion of Swala based on funds available, however, the liability accrues if any amount is unpaid when due. If any distributable amount remains unpaid at December 31, 2021, the Company may demand settlement and Swala is obligated to comply by transferring and returning the Class A common shares of PAEM sold to Swala. The aggregate value of these shares will equal the amount of the outstanding distributions. As at March 31, 2022, the Company has not received any distributions or recorded any amount receivable related to the Preference Shares.

Swala is obligated to redeem 20% of the Preference Shares for cash annually starting from December 31, 2021 until all shares are redeemed. If at any time Swala does not redeem in cash the required number of Preference Shares, Swala is obligated to redeem the Preference Shares by transferring and returning the Class A common shares of PAEM sold to Swala. The aggregate value of these Class A common shares will equal the amount of any outstanding redemption. As of March 31, 2022, the Company recorded $0.7 million as a loss allowance with respect to Preference Shares (December 31, 2021: $0.7 million).

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

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

Corporate Information

Board of Directors

Jay Lyons

Executive Director and
Chief Executive Officer
Vancouver, Canada

David W. Ross

Chairman and Non-Executive Director
Calgary, Canada

Dr Frannie Léautier

Non-Executive Director
Washington DC, United States

Linda Beal

Non-Executive Director
London, UK

Advisor to the Board and PAET

Lloyd Herrick

Director, PAET
Calgary, Canada

Officers

Jay Lyons

Chief Executive Officer
Vancouver, Canada

Lisa Mitchell

Chief Financial Officer
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