ORCA

Orca Energy Group Inc.

2021 Q3 Interim Report

Providing reliable domestic natural gas to support Tanzania's growth

In this report

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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 AND NINE MONTHS ENDED SEPTEMBER 30, 2021 SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND NOTES FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TOGETHER WITH THE MD&A FOR THE YEAR ENDED DECEMBER 31, 2020. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON NOVEMBER 17, 2021. ALL AMOUNTS ARE REPORTED IN US DOLLARS ("$") UNLESS OTHERWISE NOTED.

THIS MD&A CONTAINS NON-GAAP MEASURES 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 MEASURES", "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 certain 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 processed 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 Protected 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 CO^2 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"). The gas the Company supplied during the first nine months of 2021 to Songas, TANESCO and TPDC generated approximately 38% (nine months ended September 30, 2020: 37%) of the electrical power and approximately 63% (nine months ended September 30, 2020: 67%) of the gas utilized for power generation in Tanzania.

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

Outlook – COVID-19

There has been no significant change in the Company's business during the first nine months of 2021 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.

Financial and Operating Highlights for the Three and Nine Months Ended September, 2021

(Expressed in $'000 unless indicated otherwise)	Three months ended September 30 2021	Three months ended September 30 2020	% Change Q3/21 vs Q2/20	Nine months ended September 30 2021	Nine months ended September 30 2020	% Change Ytd/21 vs Ytd/20
OPERATING						
Daily average gas delivered and sold *(MMcfd)*	**64.5**	60.9	6%	**57.8**	56.0	3%
Industrial	**11.6**	13.4	(13)%	**12.9**	12.8	1%
Power	**52.9**	47.5	11%	**44.9**	43.2	4%
Average price *($/mcf)*						
Industrial	**8.54**	7.41	15%	**7.89**	7.41	6%
Power	**3.55**	3.46	3%	**3.49**	3.45	1%
Weighted average	**4.45**	4.33	3%	**4.47**	4.36	3%
Operating netback *($/mcf)*[1]	**2.75**	2.98	(8)%	**2.87**	2.70	6%
FINANCIAL						
Revenue	**22,271**	20,859	7%	**61,203**	55,894	9%
Net income attributable to shareholders	**7,613**	1,487	412%	**14,822**	20,386	(27)%
per share – basic and diluted *($)*	**0.38**	0.06	533%	**0.73**	0.72	1%
Net cash flows from operating activities	**12,132**	7,456	63%	**21,589**	21,799	(1)%
per share – basic and diluted *($)*	**0.61**	0.29	110%	**1.06**	0.77	38%
Adjusted funds flow from operations[1]	**12,367**	11,847	4%	**32,288**	26,796	20%
per share – basic and diluted *($)*	**0.62**	0.44	41%	**1.58**	0.93	70%
Capital expenditures	**3,715**	9,412	(61)%	**14,114**	10,906	29%

	As at September 30, 2021	As at December 31, 2020	% Change
Working capital (including cash)	**46,549**	74,236	(37)%
Cash and cash equivalents	**71,433**	104,190	(31)%
Long-term loan	**49,563**	54,246	(9)%
Outstanding shares *('000)*			
Class A	**1,750**	1,750	0%
Class B	**18,231**	24,388	(25)%
Total shares outstanding	**19,981**	26,138	(24)%

1 Please refer to Non-GAAP measures section of the MD&A for additional Information.

Management's Discussion & Analysis continued

Financial and Operating Highlights for Q3 2021

- Revenue increased by 7% for Q3 2021 and by 9% for the nine months ended September 30, 2021 compared to the same prior year periods. The increase for Q3 2021 was primarily a result of the increased sales to the power sector. The increase for the nine months ended September 30, 2021 was a result of the increased sales to both the industrial sector and power sector. Gas deliveries increased by 6% for Q3 2021 and by 3% for the nine months ended September 30, 2021 compared to the same prior year periods. The Q3 2021 increase is due to the 11% increase in gas deliveries to the power sector being partially offset by the decrease of 13% in gas deliveries to the industrial sector as a result of an increase in downtime due to unplanned maintenance at a cement plant. The increase for the nine months ended September 30, 2021 reflects the increase in gas deliveries of 4% to the power sector.
- Net income attributable to shareholders increased by 412% for Q3 2021 and decreased by 27% for the nine months ended September 30, 2021 compared to the same prior year periods. The increase for Q3 2021 was a combination of the increase in revenue, a decrease in general and administrative expenses and a reversal of loss allowances for receivables in Q3 2021 compared to a loss allowance for receivables in Q3 2020 as a result of the Company fully providing for a receivable from the Tanzanian Revenue Authority ("TRA") who issued an Agency Notice for $5.3 million obligating the commercial bank of PanAfrican Energy Tanzania Limited's ("PAET"), the Company's subsidiary operating in Tanzania, to release funds in favor of the TRA. The decrease for the nine months ended September 30, 2021 compared to the same prior year period is primarily related to the decrease in the reversal of loss allowances related to the lower collection of arrears from TANESCO despite higher revenue.
- Net cash flows from operating activities increased by 63% for Q3 2021 and decreased by 1% for the nine months ended September 30, 2021 compared to the same prior year periods primarily reflecting the changes in net income and non-cash working capital.
- Adjusted funds flow from operations increased by 4% for Q3 2021 and by 20% for the nine months ended September 30, 2021 compared to the same prior year periods. The increases were primarily a result of the increase in revenue and the reduction in general and administrative expenses.
- Capital expenditures decreased by 61% for Q3 2021 and increased by 29% for the nine months ended September 30, 2021 compared to the same prior year periods. The capital expenditures in 2021 primarily relate to the installation of compression facilities and the commencement of the well workover program for the SS-3, SS-4 and SS-10 wells. The capital expenditures in 2020 primarily related to the flowline decoupling project and the compression project. The Company is installing inlet compression to allow production volumes to be sustained at approximately 102 million standard cubic feet per day ("MMcfd") in the near term (3-5 years), through the infrastructure owned by Songas. The workover program is scheduled to be completed in Q1 2022 at a gross cost of $21.4 million of which $3.9 million has been incurred to date. The rig is currently on site and under preparation to commence the workover on well SS-3. Subject to demand volumes and associated natural reservoir pressure declines, the workovers and compression facilities provide the opportunity to initially increase production potential to a total of 172 MMcfd by also utilizing the NNGI. The original value of the contract for compression was $38.0 million, however price variations due to increased costs of sea freight, a requirement to increase on site power generation capacity, and design changes to cable routing for the project have seen the total project costs increase to $41.7 million. Of this, $39.2 million has already been incurred and following installation and testing the balance of $2.5 million is forecast to be paid in 2022. The project is currently on schedule for completion in Q2 2022.
- The Company exited the period in a strong financial position with $46.5 million in working capital (December 31, 2020: $74.2 million), cash and cash equivalents of $71.4 million (December 31, 2020: $104.2 million) and long-term debt of $49.6 million (December 31, 2020: $54.2 million). The decrease in working capital, cash and cash equivalents was primarily related to the substantial issuer bid completed in January 2021 ("2021 SIB") and the reclassification of $5.0 million of long-term debt into current liabilities as it becomes due in April 2022.
- As at September 30, 2021 the current receivable from TANESCO was $2.3 million (December 31, 2020: $ nil). TANESCO's long-term trade receivable as at September 30, 2021 was $26.5 million with a provision of $26.5 million compared to $27.6 million (provision of $27.6 million) as at December 31, 2020. Subsequent to September 30, 2021 the Company invoiced TANESCO $1.8 million for October 2021 gas deliveries and TANESCO paid the Company $3.0 million.
- On September 9, 2021 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 September 29, 2021 which was paid on October 15, 2021.
- On June 21, 2021 the Company commenced a normal course issuer bid ("NCIB") to purchase Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. To date, 9,400 Class B Shares have been purchased and canceled by the Company pursuant to the NCIB.

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 gross daily sales volume average increased by 6% for Q3 2021 and by 3% for the nine months ended September 30, 2021 over the comparable prior year periods. The increase in gross sales volume in Q3 2021 was primarily due to increased sales of natural gas to TANESCO, which were partially offset by reduced sales of natural gas to the industrial sector. The increase in gross sales volume for the nine months ended September 30, 2021 was primarily due to increased sales 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 September 30		Nine months ended September 30	
	2021	2020	2021	2020
Gross sales volume *(MMcf)*				
Industrial sector	**1,065**	1,235	**3,511**	3,496
Power sector	**4,866**	4,373	**12,262**	11,844
Total volumes	**5,931**	5,608	**15,773**	15,340
Gross daily sales volume average *(MMcfd)*				
Industrial sector	**11.6**	13.4	**12.9**	12.8
Power sector	**52.9**	47.5	**44.9**	43.2
Gross daily sales volume average total	**64.5**	60.9	**57.8**	56.0

Industrial Sector

Industrial sector gross daily sales volume decreased by 13% for Q3 2021 and increased by 1% for the nine months ended September 30, 2021 over the comparable prior year periods. The decrease in Q3 2021 was a result of unplanned maintenance time at a cement plant. The increase for the nine months ended September 30, 2021 was a result of increased consumption due to an overall increase in demand for services and products.

Power Sector

Power sector sales volumes increased by 11% for Q3 2021 and by 4% for the nine months ended September 30, 2021 over the comparable prior year periods. The increases were primarily due to increased gas sales to TANESCO and to TPDC though the NNGI.

Protected Gas Volumes

Protected Gas volumes increased by 17% to 3,411 MMcf (37.1 MMcfd) for Q3 2021 compared to 2,907 MMcf (31.6 MMcfd) for Q3 2020 and by 7% to 9,401 MMcf (34.4 MMcfd) for the nine months ended September 30, 2021 compared to 8,803 MMcf (32.1 MMcfd) for the nine months ended September 30, 2020. 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 September 30		Nine months ended September 30	
$/mcf	2021	2020	2021	2020
Average sales price				
Industrial sector	**8.54**	7.41	**7.89**	7.41
Power sector	**3.55**	3.46	**3.49**	3.45
Weighted average price	**4.45**	4.33	**4.47**	4.36

Industrial Sector

The average industrial sales price increased by 15% for Q3 2021 and by 6% for the nine months ended September 30, 2021 over the comparable prior year periods. The increase in prices 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 power sector sales price increased by 3% for Q3 2021 and by 1% for the nine months ended September 30, 2021 compared to the same prior year periods. The average power sector sales price 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.

Management's Discussion & Analysis continued

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 MD&A within the 2020 annual report).

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

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
Industrial sector	**9,098**	9,145	**27,713**	25,896
Power sector	**17,295**	15,143	**42,796**	40,920
Gross field revenue	**26,393**	24,288	**70,509**	66,816
TPDC share of revenue	**(6,933)**	(4,559)	**(16,275)**	(16,863)
Company operating revenue	**19,460**	19,729	**54,234**	49,953
Current income tax adjustment	**2,811**	1,130	**6,969**	5,941
	22,271	20,859	**61,203**	55,894

Revenue increased by 7% for Q3 2021 and by 9% for the nine months ended September 30, 2021 over the comparable prior year periods. The increases are primarily a result of increased sales to the power sector together with increase in the weighted average price in relation to sales to the industrial sector.

The average Additional Gas sales volumes for the quarters ended September 30, 2021 and September 30, 2020 as well as for the nine months ended September 30, 2021 and September 30, 2020 were above 50 MMcfd, which entitled the Company to a 55% share of Profit Gas revenue. The Company was allocated a total of 72% of the Additional Gas net field revenue for Q3 2021 (Q3 2020: 80%) and a total of 75% of the Additional Gas net field revenue for the nine months ended September 30, 2021 (nine months ended September 30, 2020: 73%).

Production, Distribution and Transportation Expenses

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

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
Operating costs	**518**	602	**1,482**	1,695
Tariff for processing and pipeline infrastructure	**2,095**	1,773	**5,785**	4,953
Ring-main distribution costs	**549**	659	**1,730**	1,736
	3,162	3,034	**8,997**	8,384

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 decreased by 14% for Q3 2021 and by 13% for the nine months ended September 30, 2021 compared to the same prior year periods primarily due to decreased expenditure on reserve and resource evaluation. The amount paid under the tariff for processing and pipeline infrastructure increased by 18% for Q3 2021 and by 17% for the nine months ended September 30, 2021 compared to the same prior year periods primarily as result of increased volumes processed and delivered through the Songas Infrastructure. Ring-main distribution costs decreased by 17% for Q3 2021 compared to the same prior year period primarily as a result of decreased costs to expand and maintain the ring-main which transports the gas primarily to industrial customers. There was no significant change in ring-main distribution costs for the nine months ended September 30, 2021 compared to the same prior year period.

Operating Netback

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 measures"):

	Three months ended September 30		Nine months ended September 30	
$/mcf	2021	2020	2021	2020
Weighted average price for gas	**4.45**	4.33	**4.47**	4.36
TPDC Profit Gas entitlement	**(1.17)**	(0.81)	**(1.03)**	(1.11)
Production, distribution and transportation expenses	**(0.53)**	(0.54)	**(0.57)**	(0.55)
Operating netback	**2.75**	2.98	**2.87**	2.70

The operating netback decreased by 8% for Q3 2021 and increased by 6% for the nine months ended September 30, 2021 over the comparable prior year periods. The decrease in Q3 2021 is the result of lower capital expenditure than in Q3 2020 resulting in a higher TPDC Profit Gas entitlement. The increase for the nine months ended September 30, 2021 is mainly due to the higher gas prices to the Industrial sector as well as the reduction in TPDC's Profit Gas entitlement over the comparable prior year period.

General and Administrative Expenses

General and administrative expenses are detailed in the tables below:

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
Employee and related costs	**1,278**	2,441	**5,086**	5,899
Office costs	**411**	1,023	**1,931**	2,800
Marketing and business development costs	**311**	259	**640**	749
Reporting, regulatory and corporate	**419**	55	**1,017**	1,017
	2,419	3,778	**8,674**	10,465

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

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
Tanzania	**1,523**	1,829	**5,055**	4,868
Corporate	**896**	1,949	**3,619**	5,597
	2,419	3,778	**8,674**	10,465

General and administrative expenses averaged $0.8 million per month during Q3 2021 (Q3 2020: $1.3 million) and $1.0 million per month for the nine months ended September 30, 2021 (nine months ended September 30, 2020: $1.2 million). The decrease in employee and related costs for Q3 2021 and the nine months ended September 30, 2021 over the comparable prior year periods was mainly due to termination payments to senior management incurred in Q3 2020. The 31% decrease in office costs and 15% decrease in marketing and business development costs for the nine months ended September 30, 2021 over the comparable prior year period was a result of the decision in Q3 2020 to focus on Tanzanian operations by reducing head office staff, office space and related costs. The reporting, regulatory and corporate costs in the nine months ended September 30, 2021 were unchanged over the comparable prior year period.

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Stock Based Compensation

The breakdown of the costs incurred in relation to stock based compensation is detailed in the table below:

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
Stock appreciation rights ("SARs")	**(65)**	(222)	**(462)**	(10)
Restricted stock units ("RSUs")	**9**	140	**(15)**	257
	(56)	(82)	**(477)**	247

As at September 30, 2021 a total of 746,166 SARs were outstanding (December 31, 2020: 1,242,166). No new SARs were issued, 412,667 SARs were exercised, and 83,333 SARs were forfeited during the first nine months of 2021. As at September 30, 2021 a total of 76,366 RSUs were outstanding (December 31, 2020: 133,200). No new RSUs were issued, 47,501 RSUs were exercised, and 9,333 RSUs were forfeited during the first nine months of 2021.

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 31.0% to 37.0%, 5% forfeiture and a closing price of CDN$5.40 per Class B Share. The valuation of outstanding SARs and RSUs awards is increased to reflect the dividends paid between the award date and the exercise date.

As at September 30, 2021 a total accrued liability of $1.2 million (December 31, 2020: $2.7 million) has been recognized in relation to SARs and RSUs. The Company recognized $0.06 million for Q3 2021 as stock based compensation recovery (Q3 2020: $0.08 million) and $0.5 million for the nine months ended September 30, 2021 as stock based compensation recovery (nine months ended September 30, 2020: $0.2 million as stock based compensation expense).

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. As at September 30, 2021 the internally estimated (year end 2020 less gross production for the nine months ended September 30, 2021) proved conventional natural gas reserves remaining to be produced over the term of the PSA license were 178 Bcf (December 31, 2020: 203 Bcf) as determined by McDaniel & Associates Consultants Ltd. in their report dated February 23, 2021 with an effective date of December 31, 2020 and prepared in accordance with National Instrument 51-101 and the Canadian Oil & Gas Evaluation Handbook. The average depletion rate was $0.71/mcf for the quarter and the nine months ended September 30, 2021 compared to $0.70/mcf for the comparable prior year periods.

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
Oil and natural gas interests	**4,186**	3,931	**11,133**	10,752
Office and other	**8**	21	**31**	83
Right-of-use assets	**73**	116	**218**	324
	4,267	4,068	**11,382**	11,159

The depletion for natural gas interests increased by 6% for Q3 2021 and by 4% for the nine months ended September 30, 2021 over the comparable prior year periods. The increases were a result of the increase in the volume of gas produced and sold and the increase in the average depletion rate between periods.

Finance Income and Expense

Finance income is detailed in the table below:

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
Interest income	**34**	185	**108**	720
Investment income	**–**	–	**–**	305
	34	185	**108**	1,025

Interest income has decreased for Q3 2021 and for the nine months ended September 30, 2021 compared to the same prior year periods. The decreases were primarily a result of the Company reducing cash and cash equivalents as a result of increased shareholder returns through substantial and normal course issuer bids completed in 2020 and 2021 combined with a reduction in market interest rates. At September 30, 2021 and December 31, 2020 the Company did not have investments in short-term bonds resulting in zero investment income in the nine months ended September 30, 2021.

Finance Income and Expense continued

Finance expense is detailed in the table below:

$'000	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
Base interest expense	**1,526**	1,469	**4,506**	4,363
Participation interest expense	**441**	(132)	**548**	1,082
Lease interest expense	**10**	24	**34**	72
Interest expense	**1,977**	1,361	**5,088**	5,517
Net foreign exchange loss (gain)	**47**	(359)	**354**	(496)
Indirect tax (recovery) expense	**(874)**	201	**1,614**	1,670
	1,150	1,203	**7,056**	6,691

Base and participation interest expense relate to the long-term loan ("Loan") from the International Finance Corporation ("IFC") to PAET, the Company's subsidiary operating in Tanzania. 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 less the 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 for the nine months ended September 30, 2021 over the comparable prior year period is primarily a consequence of PAET's capital expenditure program, which has reduced the net cash flows on which the participation interest expense is based compared to the same prior year period.

Net foreign exchange gains and 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 under the take or pay provisions within the PGSA and for interest on late payments. The decrease in indirect tax for Q3 2021 over the comparable prior year period is a result of a credit note for $7.1 million issued against an invoice raised earlier in Q2 2021 under the take or pay provisions of the PGSA following commercial discussions with TANESCO (see "Working Capital – TANESCO Receivable" in this MD&A).

(Reversal of) Loss Allowance for Receivables

$'000	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
Reversal of loss allowance	**(1,944)**	(1,567)	**(3,762)**	(17,473)
Loss allowance	**–**	5,337	**–**	5,337
	(1,944)	3,770	**(3,762)**	12,136

In Q3 2021, the reversal of loss allowance follows the agreement to settle Songas operatorship arrears of $1.9 million (Q3 2020: $1.6 million from TANESCO). For the nine months ended September 30, 2021, the reversal of loss allowance includes the agreement to settle Songas arrears of $1.9 million, the collection of TANESCO arrears of $1.1 million and collection of $0.8 million of indirect taxes related to the receipt of funds for the TANESCO 2016 take or pay invoice that had been previously provided for. (nine months ended September 30, 2020: $1.1 million and $16.4 million from Songas and TANESCO, respectively). Songas operatorship arrears of $1.9 million were collected subsequent to September 30, 2021.

The loss allowance for 2020 is for a receivable from the TRA who issued an Agency Notice for $5.3 million obligating PAET's commercial bank in Tanzania to release funds in favor of the TRA. The tax dispute related to the Agency Notice is ongoing and based on the opinion of the Company's legal advisors there is better than a 50% chance of the dispute being resolved in favor of the Company. Subsequent to September 30, 2021, the Court of Appeal of Tanzania ("CAT") ruled in favor of the TRA on the appeal. Currently the Company is exploring its options going forward on this matter. The Company recorded the $5.3 million as other receivables and fully allowed for the amount in dispute as the timing and likelihood for collection is uncertain.

For additional context regarding the reversal of loss allowance and the loss allowance for receivables, please see the Company's audited financial statements for the fiscal year ended December 31, 2020, and the Company's Q3 2020 MD&A and Q3 2020 interim financial statements and notes available on SEDAR at www.sedar.com or the Company's website.

Management's Discussion & Analysis continued

Additional Profits Tax

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
APT	**1,446**	937	**3,395**	3,465

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 revenues over the term of the PSA. The forecast takes into account the timing of future development capital spending. As at September 30, 2021 the current portion of APT payable was $6.6 million (December 31, 2020: $11.5 million) with a long-term APT payable of $21.6 million (December 31, 2020: $24.8 million). APT of $11.5 million was paid in Q1 2021 based on the 2020 results (Q1 2020: $11.9 million based on 2019 results).

The effective APT rate of 17.1% (Q3 2020: 16.8%) has been applied to the Company's share of Profit Gas revenue of $7.4 million for Q3 2021 (Q3 2020: $5.6 million) and $18.5 million for the nine months ended September 30, 2020 (nine months ended September 30, 2020: $20.6 million). Accordingly, $1.4 million for the quarter ended September 30, 2021 (Q3 2020: $0.9 million) and $3.4 million for the nine months ended September 30, 2021 (nine months ended September 30, 2020: $3.5 million) of APT has been recorded in the Consolidated Interim Statements of Comprehensive Income.

Working Capital

Working capital as at September 30, 2021 was $46.5 million (December 31, 2020: $74.2 million) and is detailed in the table below:

	As at			
$'000		September 30, 2021		December 31, 2020
Cash and cash equivalents		**71,433**		104,190
Trade and other receivables				
Songas	**8,208**		6,624	
TPDC	**3,888**		7,417	
TANESCO	**2,275**		–	
TRA	**5,337**		5,337	
Industrial customers and other receivables	**15,271**		10,960	
Loss allowance	**(6,514)**	**28,465**	(8,458)	21,880
Prepayments		**461**		898
		100,359		126,968
Trade and other payables				
TPDC share of Profit Gas revenue[1]	**22,486**		25,570	
Songas	**1,933**		2,062	
Deferred income – take or pay contracts[2]	**4,228**		–	
Other trade payables and accrued liabilities	**11,652**		11,655	
Current portion of long-term loan	**5,000**		–	
Current portion of APT	**6,606**	**51,905**	11,489	50,776
Tax payable		**1,905**		1,956
		53,810		52,732
Working capital		**46,549**		74,236

1 The balance of $22.5 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 $6.4 million in Q1 2021 (Q1 2020: $1.9 million), $6.0 million in Q2 2021 (Q2 2020: $6.5 million) and $ nil in Q3 2021 (Q3 2020: $5.5 million).

2 In April 2021 TANESCO paid the take or pay invoice of $5.0 million for the 2015-2016 contract year for gas to be taken by June 30, 2021. In May 2021 the Company reached an agreement with TANESCO to extend the time period for the previously untaken gas to be taken by 12 months, until the end of Q2 2022. The deferred income amount will be released to the Statements of Comprehensive Income as revenue either: (i) as gas is taken; or (ii) in Q2 2022, should TANESCO be unable to take sufficient gas volumes to recover the full take or pay amount.

Working Capital continued

Financial Instruments

Current financial instruments of the Company include cash and cash equivalents, trade and other receivables, trade and other payables 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 forecasted debt and interest payments ($8.1 million) and capital expenditure ($45.5 million) through to September 30, 2022. The Company hasn't incurred any losses from debtors thus far in 2021 and does not expect to incur any for the remainder of the year. 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 September 30, 2021 the current receivable from TANESCO was $2.3 million (December 31, 2020: $ nil). During Q1 and Q2 2021 the amounts received from TANESCO were in excess of the revenue recognized for gas deliveries to TANESCO. During Q3 2021 the Company invoiced TANESCO $7.5 million (Q3 2020: $5.9 million) for gas deliveries and received $5.2 million in payments (Q3 2020: $7.5 million).

The TANESCO long-term receivable as at September 30, 2021 was $26.5 million with a provision of $26.5 million compared to $27.6 million (with a provision of $27.6 million) as at December 31, 2020. In Q2 2021 the Company invoiced TANESCO $13.7 million (Q2 2020: $6.5 million) under the take or pay provision within the PGSA; in Q3 2021, as a result of volume reconciliations that took place subsequent to the end of the 2020-2021 contract year, the Company issued a credit note to TANESCO for $7.1 million (Q3 2020: $ nil) with regards to the take or pay provision within the PGSA. The invoice and the credit note have not been recorded as a long-term receivable as they do not meet revenue recognition criteria with respect to assurance of collectability. Subsequent to September 30, 2021 the Company invoiced TANESCO $1.8 million for July 2021 gas deliveries and TANESCO has paid the Company $3.0 million.

Capital Expenditures

The capital expenditures in 2021 primarily related to the installation of compression facilities and well workover planning and design. The capital expenditures in 2020 primarily related to the flowline construction and the compression project.

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
Pipelines and infrastructure	**3,711**	9,332	**14,102**	10,807
Other capital expenditures	**4**	80	**12**	99
	3,715	9,412	**14,114**	10,906

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 significant additional capital expenditure in Tanzania is discretionary.

In order to sustain current levels of production to October 2026 (end of the current PSA), the Company is installing compression facilities to maintain throughput of the Songas Infrastructure over the remaining term of the PSA. Failure to do so would gradually lead to a significant reduction in production as field pressure declines below the level required to deliver gas within contractual specification to the Dar es Salaam power sector and industrial customers. As at the date of this report, the Company's significant contractual commitments are in relation to contracts for compression installation and the workover program. The original value of the contract for compression was $38.0 million, however price variations due to increased costs of sea freight, a requirement to increase on site power generation capacity, and design changes to cable routing for the project have seen the total project costs increase to $41.7 million, of which $39.2 million has already been incurred with forecasted expenditures of $2.5 million to be paid in 2022 following installation and testing. The compression facilities are expected to be operational by the end of Q2 2022.

Management's Discussion & Analysis continued

Capital Expenditures continued

Capital Requirements continued

In 2021 the Company will remediate three onshore wells (SS-10, SS-3 and SS-4). Two of the three wells (SS-3 and SS-4), owned by Songas, are suspended and shut-in respectively due to corrosion and, in the case of SS-4, sand production. SS-10 is still producing but is affected by progressive corrosion of its production tubing. All three wells will have their existing carbon steel production tubing replaced with corrosion resistant 13% chrome production tubing. In accordance with its contractual obligations, Songas has agreed to contribute towards the costs associated with the remediation of the SS-3 and SS-4 wells, which has enabled a contiguous program that has reduced the potential capital expenditure required per well. This is a result of wider distribution of shared costs, particularly concerning rig mobilization and demobilization. The total estimated gross cost for the workovers is $21.4 million of which $3.9 million has already been incurred.

In Q1 2021 the Company completed the flowline decoupling project by installing dedicated flowlines to onshore wells SS-10 and SS-11. These two wells had hitherto been coupled to the 4" flowlines used by wells SS-3 and SS-4. The project has increased production potential by approximately 10 MMcfd.

Long-term Receivables

$'000	As at September 30, 2021	As at December 31, 2020
VAT on Songas workovers	**2,205**	2,205
Lease deposit	**10**	9
	2,215	2,214

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:

$'000	As at September 30, 2021	As at December 31, 2020
Total amounts invoiced to TANESCO	**118,045**	111,234
Trade receivable – TANESCO	**(2,275)**	–
Unrecognized amounts not meeting revenue recognition criteria[1]	**(89,278)**	(83,685)
Loss allowance	**(26,492)**	(27,549)
	–	–

[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 million starting April 15, 2022 and one final payment of $25.2 million due on April 15, 2025. The Company may voluntarily prepay all or part of the Loan but must simultaneously pay any accrued base interest costs related to the principal amount being prepaid. The Loan is an unsecured subordinated obligation of PAET and was guaranteed by the Company to a maximum of $30 million. The guarantee may only be called upon by IFC at maturity in 2025 and, subject to IFC approval and receipt of all required regulatory approvals, the Company, at its discretion, may issue shares in fulfillment of all or part of the guarantee obligation in 2025. Pursuant to the sale of 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 2021 SIB of CDN$40.0 million in January 2021 (CDN$50.0 million pursuant to the substantial issuer bid completed in 2020 ("2020 SIB")) the Company purchased and canceled 6,153,846 Class B Shares (2020: 7,692,297 Class B Shares). Pursuant to the NCIB commenced on June 21, 2021, the Company has purchased and canceled 9,400 Class B Shares. There were a total of 1,750,495 Class A Shares and 18,230,213 Class B Shares outstanding as at September 30, 2021 and 1,750,495 Class A Shares and 18,224,213 Class B Shares outstanding as at November 17, 2021. See "Substantial Issuer Bid and Dividends" in this MD&A.

Cash Flow Summary

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
Operating activities				
Net income	**8,212**	2,025	**16,048**	21,423
Non-cash adjustments	**4,155**	6,052	**18,058**	17,509
Interest expense	**1,977**	1,361	**5,088**	5,517
Changes in non-cash working capital[1]	**(2,212)**	(1,982)	**(17,605)**	(22,650)
Net cash flows from operating activities	**12,132**	7,456	**21,589**	21,799
Net cash (used in) from investing activities	**(836)**	(4,651)	**(11,356)**	33,843
Net cash used in financing activities	**(3,021)**	(5,594)	**(42,680)**	(51,441)
Increase (decrease) in cash	**8,275**	(2,789)	**(32,447)**	4,201

[1] See Consolidated Interim Statements of Cash Flows.

The Company's net cash flows from operating activities increased by 63% for Q3 2021 and decreased by 1% for the nine months ended September 30, 2021 over the comparable prior year periods. The increase for Q3 2021 over the comparable prior year period was a combination of higher revenue, a decrease in general and administrative expenses and an increase in the reversal of loss allowances compared with the loss allowance provided against the TRA receivable in Q3 2020. The decrease for the nine months ended September 30, 2021 compared to the same prior year period was primarily a result of a decrease in the reversal of loss allowances for receivables due to lower payments from TANESCO. The decrease in net cash (used in) from investing activities for the nine months ended September 30, 2021 over the comparable prior year period was mainly a result of the conversion of short-term bonds to cash in Q1 and Q2 2020. The decrease in net cash used in financing activities for the nine months ended September 30, 2021 over the comparable prior period was primarily a result of difference in the amount of the 2021 SIB of $31.9 million compared to the 2020 SIB of $38.2 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. Fees for services provided by this firm totalled $0.1 million during the quarter ended September 30, 2021 (Q3 2020: $0.1 million) and $0.3 million for the nine months ended September 30, 2021 (nine months ended September 30, 2020: $0.8 million). As at September 30, 2021 the Company had a total of $0.1 million (December 31, 2020: $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 (Q1 2020: 7,682,297) at a weighted average price of CDN$6.50 per Class B Share under the 2021 SIB (2020 SIB: CDN$6.50). This resulted in an aggregate purchase of CDN$40.0 million (2020 SIB: CDN$50.0 million) of Class B Shares representing 25.2% (2020 SIB: 23.6%) of the Company's issued and outstanding Class B Shares and 23.5% (2020 SIB: 22.4%) of the total number of the Company's issued and outstanding shares. Total cash payments of $31.9 million (2020 SIB: $38.2 million) were applied to the capital stock and accumulated income accounts. All issued capital stock is fully paid.

Management's Discussion & Analysis continued

Substantial Issuer Bid, Normal Course Issuer Bid and Dividends continued

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 will be 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 will be 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. To date, 9,400 Class B Shares have been purchased by the Company pursuant to the NCIB at an average price per Class B Share of CDN$5.31. Shareholders may obtain a copy of the notice regarding the NCIB filed with the TSXV from the Company without charge.

Dividend Summary

Declaration date	Record date	Payment date	Amount per share (*CDN$*)
September 9, 2021	September 29, 2021	October 15, 2021	0.10
June 4, 2021	June 30, 2021	July 15, 2021	0.10
February 23, 2021	March 31, 2021	April 15, 2021	0.10
November 19, 2020	December 31, 2020	January 15, 2021	0.08
September 17, 2020	September 30, 2020	October 15, 2020	0.08
June 22, 2020	June 30, 2020	July 15, 2020	0.06
February 25, 2020	March 31, 2020	April 30, 2020	0.06

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
Orca Exploration Italy Inc.[1]	British Virgin Islands	100%
Orca Exploration Italy Onshore Inc.[1]	British Virgin Islands	100%
PAE PanAfrican Energy Corporation	Mauritius	92%
PanAfrican Energy Tanzania Limited	Jersey	92%
Orca Exploration UK Services Limited	United Kingdom	100%

1 The companies were wound up during 2020.

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 September 30, 2021, the Company has not received any distributions or recorded any amount receivable related to the Preference Shares.

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

There is no credit risk associated with the Preference Shares as a consequence of Swala having the obligation to redeem them by returning the equivalent value of Class A common shares for any overdue and outstanding amounts. A reconciliation of the non-controlling interest is detailed below:

	As at	
$'000	September 30, 2021	December 31, 2020
Balance, beginning of period	**1,523**	163
Net income attributable to non-controlling interest	**1,226**	1,360
Balance, end of period	**2,749**	1,523

Contingencies

Taxation

Amounts in $'millions					As at September 30, 2021	As at December 31, 2020
Area	Period	Reason for dispute	Principal	Interest	Total	Total
Pay-As-You-Earn ("PAYE") tax	2008-16	PAYE tax on grossed-up amounts in staff salaries which are contractually stated as net.	1.2	0.5	**1.7**	1.6
Withholding tax ("WHT")	2005-16	WHT on services performed outside of Tanzania by non-resident persons, on deemed dividends, loan interest and other services.	5.7	3.3	**9.0**	8.7
Income Tax	2008-16	Deductibility of capital expenditures and expenses (2009, 2012, 2015 and 2016), additional income tax (2008, 2010, 2011 and 2012), tax on repatriated income (2012), deemed branch dividends (2015 and 2016), foreign exchange rate application (2013 and 2015) and underestimation of tax due (2014).	35.1	17.9	**53.0**	52.1
VAT	2008-18	Output VAT on imported services and SSI Operatorship services (2008-16), interest on VAT decreasing adjustments and input VAT on services (2017 and 2018).	2.8	4.1	**6.9**	6.8
			44.8	25.8	**70.6**	69.2

During Q2 2021 the Company paid the TRA $1.8 million as a deposit against the disputed taxes including PAYE tax, WHT, income tax and VAT for the years 2012-16, an amount agreed upon in order for TRA to admit the outstanding tax objections. In Q3 2021, the CAT delivered its judgment on an appeal instituted by the Company on appealability of one-third deposit required to admit objections for the year of income of 2012. CAT decided that the matters are not tax decisions and are therefore not appealable. Aggrieved by the decision, management intends to file an application for the review of the decision at the same court. The decision, however, will not affect the position on admission of objections for the years 2012-16.

During 2020 the TRA conducted audits of 2017 and 2018 and issued two assessments with regards to VAT ($1.2 million) and WHT ($0.01 million). The Company has conceded to the TRA with respect to the WHT assessment ($0.01 million) and a portion of the VAT assessment ($0.06 million). However, the Company has objected incorrect imposition of interest on VAT decreasing adjustments on TANESCO payments ($1.1 million) and disallowing input VAT claimed in certain services ($0.1 million). No final assessments have been issued to date with respect to corporation tax, excise duty or payroll tax for 2017 and no preliminary assessment has yet been received for 2018.

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 provision is required with regards to these matters and that the maximum potential exposure is $65.0 million (December 31, 2020: $63.6 million). The difference between the total disputed amounts and the maximum potential exposure results from the $5.3 million and $0.3 million PAET's commercial bank in Tanzania transferred to the TRA with regards to disputed 2008-10 output VAT and disputed 2008-10 PAYE tax, respectively. The Company has filed an appeal for the action to be reversed as the bank made the transfer under instructions from the TRA. Subsequent to September 30, 2021, CAT ruled in favor of the TRA on the appeal. Currently the Company is exploring its options going forward on this matter. The amount is recorded in trade and other receivables and has been fully provided for pending the result of the appeal.

The process of appealing assessments issued by the TRA start by initially filing an appeal with the TRA. If this is not successful, claims can be taken to higher authorities starting with the Tanzania Revenue Appeals Board ("TRAB"), followed by an appeal to the Tax Revenue Appeals Tribunal ("TRAT") and finally to the CAT. See Note 21 of the audited consolidated financial statements for the year ended December 31, 2020 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 keep under 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.

Management's Discussion & Analysis continued

Quarterly Results Summary

The following is a summary of the results for the Company for the last eight quarters:

Figures in $'000	2021			2020				2019
except where otherwise stated	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	**22,271**	20,301	18,631	21,980	20,859	17,320	17,715	23,212
Net income attributable to shareholders	**7,613**	3,963	3,963	7,375	1,487	6,254	12,645	12,642
Earnings per share – basic and diluted ($)	**0.38**	0.16	0.19	0.28	0.06	0.27	0.39	0.36
Net cash flows from (used in) operating activities	**12,132**	10,251	(794)	24,707	7,456	13,516	826	5,051
Adjusted funds flow from operations[1]	**12,367**	11,334	8,587	12,348	11,847	7,380	7,568	13,479
Capital expenditures	**3,715**	10,167	232	16,315	9,412	1,005	489	1,014

[1] See non-GAAP measures

Revenue decreased in the first half of 2020 as a result of increased use of hydropower during an extended rainy season, which led to a fall in sales to the power sector. Revenue increased during Q3 2020 and Q4 2020 as the power sector demand for gas increased to compensate for a reduction in the available 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.

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

- the collection of long-term TANESCO arrears led to an increase in the reversal of loss allowances in Q1 2020. The Company collected $10.1 million of TANESCO long-term arrears in Q1 2020;
- the decrease in Q2 2020 was partially due to lower revenue and a lower collection of TANESCO arrears as compared to Q1 2020;
- 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 (see "Contingencies" in this MD&A);
- 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; and
- 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.

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 Q1 2020 and the consequent increase in Q2 2020 were primarily a result of the annual payment of the 2019 current liability associated with APT paid in Q1 2020. 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 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 and Q3 2021 were mainly a result of the annual 2020 current liability associated with APT paid in Q1 2021.

The decrease in the adjusted funds flow from operations from Q4 2019 to Q2 2020 is reflective of the decrease in revenue due to the availability of hydropower with revenue again increasing in Q3 2020 and Q4 2020. The decrease in Q1 2021 was primarily the result of the increased availability of hydropower. The increases in Q2 and Q3 2021 were mainly a result of increases in revenue.

Capital expenditures in Q1 2020 and 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 2021 were mainly related to the well workover program.

Non-GAAP Measures

The Company evaluates its performance using certain non-GAAP (generally accepted accounting principles) measures. These non-GAAP measures are not standardized and therefore may not be comparable to similar measurements of other entities.

- Adjusted funds flow from operations represents net cash flows from operating activities less interest expense and reversal of loss allowances before changes in non-cash working capital. This is a performance measure that management believes represents the Company's ability to generate sufficient cash flow to fund capital expenditures and/or service debt.

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
Net cash flows from operating activities	**12,132**	7,456	**21,589**	21,799
Interest expense	**(1,977)**	(1,361)	**(5,088)**	(5,517)
Reversal of loss allowance – TANESCO arrears	**–**	(1,567)	**(1,818)**	(16,427)
Reversal of loss allowance – disputed Songas receivables	**–**	–	**–**	(1,046)
Loss allowance – TRA	**–**	5,337	**–**	5,337
Changes in non-cash working capital	**2,212**	1,982	**17,605**	22,650
Adjusted funds flow from operations	**12,367**	11,847	**32,288**	26,796

- Operating netbacks represent the profit margin associated with the production and sale of Additional Gas and is calculated as revenues less processing and transportation tariffs, TPDC's Profit Gas revenue share, operating and distribution costs per one thousand standard cubic feet of Additional Gas. This is a key measure as it demonstrates the profit generated from each unit of production.
- Adjusted funds flow from operations per share is calculated as adjusted funds flow from operations divided by the weighted average number of shares, similar to the calculation of earnings 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.

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, 2020 audited consolidated financial statements for a description of estimates and judgments.

Management's Discussion & Analysis continued

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, 2020 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.

COVID-19

The emergence of COVID-19 resulted in travel bans, mandatory and self-imposed quarantines and isolations, social distancing and the closing of nonessential business which has had a negative impact on economies world-wide. The Company has taken appropriate action to protect employees such as social distancing, working from home where possible and ensuring staff who work on rotation at our operational site on Songo Songo Island are tested for COVID-19, and placed into quarantine prior to receiving their results and before resuming regular duties. If the result is positive, the staff will continue to be quarantined until testing negative. The Company's business, operations and financial condition have not been significantly adversely affected by COVID-19, however there has been a decline in revenue from gas deliveries as a result of temporary business slowdowns, closures and expansion delays. Although the Company has lived with the impact of COVID-19 for almost two years, the full extent of the risks surrounding the long-term impact and severity of the COVID-19 pandemic remains unclear at this time. The further spread of COVID-19 could result in volatility and disruptions in regular business operations including disruption of supply chains that could impact operations and performance of counter-parties, volatility in foreign exchange rates, payment delays from customers, additional cyber-security and internal control risk as a result of more employees working remotely as well as declining trade and market sentiment. COVID-19 poses a risk on the financial capacity of the Company's contract counterparties and potentially their ability to perform contractual obligations and the Company's ability to implement planned capital projects. Although the Company's production and reserves are entirely comprised of gas, a prolonged decline in world oil prices could impact the competitiveness and demand for gas in Tanzania and negatively impact Company revenues, collectability of receivables and cash flow.

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 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; 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; 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; expected timing, cost and ability to remediate three onshore wells, SS-3, SS-4 and SS-10; the increased production potential resulting from the completion of the flowline decoupling project; 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 Company's maximum potential exposure relating to the TRA's assessment of VAT; and the result of the Company's appeal and potential application with the TRA and CAT, respectively. 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; 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; risk that the Company's proposed application to the CAT will be denied; 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 install compression on the Songas Infrastructure 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 fulfill 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 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. 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.

Management's Discussion & Analysis continued

Forward Looking Statements continued

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 installation of compression 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 further 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 labor; 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; 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.

Additional Information

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

Glossary

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

Q3 2021 Interim Financial Statements and Notes

NOTIFICATION OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the three and nine-month periods ended September 30, 2021.

Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited)

		Three months ended September 30		Nine months ended September 30	
$'000	Note	2021	2020	2021	2020
Revenue	6, 7	**22,271**	20,859	**61,203**	55,894
Production, distribution and transportation		**3,162**	3,034	**8,997**	8,384
Net production revenue		**19,109**	17,825	**52,206**	47,510
Operating expenses					
General and administrative		**2,419**	3,778	**8,674**	10,465
Stock based compensation (recovery) expense	14	**(56)**	(82)	**(477)**	247
Depletion	10	**4,186**	3,931	**11,133**	10,752
(Reversal of) loss allowance for receivables	9	**(1,944)**	3,770	**(3,762)**	(12,136)
Finance income	8	**(34)**	(185)	**(108)**	(1,025)
Finance expense	8	**1,150**	1,203	**7,056**	6,691
Income before tax		**13,388**	5,410	**29,690**	32,516
Income tax expense – current		**2,514**	1,589	**6,456**	6,568
Income tax expense – deferred		**1,216**	859	**3,791**	1,060
Additional Profits Tax		**1,446**	937	**3,395**	3,465
Net income		**8,212**	2,025	**16,048**	21,423
Net income attributable to non-controlling interest	20	**599**	538	**1,226**	1,037
Net income attributable to shareholders		**7,613**	1,487	**14,822**	20,386
Foreign currency translation (loss) gain from foreign operations		**(23)**	11	**(9)**	(11)
Comprehensive income		**7,590**	1,498	**14,813**	20,375
Net income attributable to shareholders per share ($)					
Basic and diluted	15	**0.38**	0.06	**0.73**	0.72

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Financial Position (Unaudited)

$'000	Note	As at September 30, 2021	As at December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		**71,433**	104,190
Trade and other receivables	9	**28,465**	21,880
Prepayments		**461**	898
		100,359	126,968
Non-current assets			
Long-term receivables	12	**2,215**	2,214
Investments	20	**3,967**	3,967
Capital assets	10	**112,195**	109,463
		118,377	115,644
Total assets		**218,736**	242,612
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	11	**40,299**	39,287
Tax payable		**1,905**	1,956
Current portion of long-term loan	13	**5,000**	–
Current portion of Additional Profits Tax		**6,606**	11,489
		53,810	52,732
Non-current liabilities			
Deferred income taxes		**22,300**	18,509
Lease liabilities	10	**269**	423
Long-term loan	13	**49,563**	54,246
Additional Profits Tax		**21,562**	24,830
		93,694	98,008
Total liabilities		**147,504**	150,740
SHAREHOLDERS' EQUITY			
Capital stock	14	**47,528**	63,243
Accumulated other comprehensive loss		**(180)**	(171)
Accumulated income		**21,135**	27,277
Non-controlling interest	20	**2,749**	1,523
		71,232	91,872
Total equity and liabilities		**218,736**	242,612

See accompanying notes to the condensed consolidated interim financial statements.

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

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

$'000	Note	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
OPERATING ACTIVITIES					
Net income		**8,212**	2,025	**16,048**	21,423
Adjustment for:					
Depletion and depreciation	10	**4,267**	4,068	**11,382**	11,159
Loss on disposal of lease		**–**	293	**–**	293
Indirect tax (recovery) expense	8	**(874)**	201	**1,614**	1,670
Stock based compensation (recovery) expense	14	**(56)**	(82)	**(477)**	247
Deferred income taxes		**1,216**	859	**3,791**	1,060
Additional Profits Tax		**1,446**	937	**3,395**	3,465
Reversal of loss allowance for receivables	9	**(1,944)**	–	**(1,944)**	–
Unrealized loss (gain) on foreign exchange		**100**	(224)	**297**	(385)
Interest expense	8	**1,977**	1,361	**5,088**	5,517
Change in non-cash working capital	19	**(2,212)**	(1,982)	**(17,605)**	(22,650)
Net cash flows from operating activities		**12,132**	7,456	**21,589**	21,799
INVESTING ACTIVITIES					
Capital expenditures	10	**(836)**	(9,614)	**(11,356)**	(10,913)
Proceeds from sale of investments in bonds		**–**	4,963	**–**	44,756
Net cash (used in) from investing activities		**(836)**	(4,651)	**(11,356)**	33,843
FINANCING ACTIVITIES					
Lease payments		**(22)**	(396)	**(181)**	(621)
Substantial issuer bid	14	**(14)**	–	**(31,886)**	(38,170)
Normal course issuer bid	14	**–**	(302)	**–**	(2,149)
Interest paid	8	**(1,396)**	(3,738)	**(5,786)**	(6,632)
Dividends paid to shareholders	14	**(1,589)**	(1,158)	**(4,827)**	(3,869)
Net cash used in financing activities		**(3,021)**	(5,594)	**(42,680)**	(51,441)
Increase (decrease) in cash		**8,275**	(2,789)	**(32,447)**	4,201
Cash and cash equivalents at the beginning of the period		**63,269**	101,113	**104,190**	93,899
Effect of change in foreign exchange on cash for the period		**(111)**	210	**(310)**	434
Cash and cash equivalents at the end of the period		**71,433**	98,534	**71,433**	98,534

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, 2020	63,243	–	(171)	27,277	1,523	91,872
Share repurchase	(15,715)	–	–	(15,974)	–	(31,689)
Share repurchase costs	–	–	–	(197)	–	(197)
Dividends declared	–	–	–	(4,793)	–	(4,793)
Foreign currency translation adjustment on foreign operations	–	–	(9)	–	–	(9)
Net income	–	–	–	14,822	1,226	16,048
Balance as at September 30, 2021	**47,528**	**–**	**(180)**	**21,135**	**2,749**	**71,232**

$'000	Capital stock	Contributed surplus	Accumulated other comprehensive loss	Accumulated income	Non-controlling interest	Total
Note	*14*			*14*	*20*	
Balance as at December 31, 2019	84,099	4,181	(210)	20,334	163	108,567
Share repurchase	(20,856)	(4,181)	–	(14,460)	–	(39,497)
Share repurchase costs	–	–	–	(822)	–	(822)
Dividends declared	–	–	–	(3,899)	–	(3,899)
Foreign currency translation adjustment on foreign operations	–	–	(11)	–	–	(11)
Net income	–	–	–	20,386	1,037	21,423
Balance as at September 30, 2020	63,243	–	(221)	21,539	1,200	85,761

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

The condensed consolidated interim financial statements of the Company as at September 30, 2021 and for the three and nine months ended September 30, 2021 comprise the accounts of the Company and its subsidiaries (collectively, the "Company") and were authorized for issue in accordance with a resolution of the directors on November 17, 2021. The Company is controlled by Shaymar Limited who is the registered holder of 24.6% of the equity and controls 71.4% of the total votes of the Company. The shares are held in a trust that is independently managed for the beneficiaries.

1. Nature of Operations

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

The PSA defines gas in the Songo Songo field as "Protected Gas" and "Additional Gas". The "Protected Gas" is owned by TPDC and is sold under a 20-year gas agreement until July 2024 ("Gas Agreement") to Songas Limited ("Songas") 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, 2020.

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 the nine months ended September 30, 2021 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.

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, 2020. There have been no changes in accounting policies for the nine month period ended September 30, 2021 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, 2020.

See Note 4 of the audited consolidated financial statements for the year ended December 31, 2020 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 September 30, 2021 and December 31, 2020, 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 during the nine month period ended September 30, 2021 (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 September 30, 2021 the Company has working capital of $46.5 million which is net of $53.8 million of financial liabilities with regards to trade and other payables of which $15.5 million is due within one to three months, $6.6 million is due within three to six months, and $31.7 million is due within six to twelve months (see Note 11).

As at September 30, 2021 approximately 42% 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 2021 and 2020. Tourism is a major source of revenue and foreign currency for Tanzania and the decrease in travel has resulted in a reduction of foreign currency flowing into the country. It has been more difficult for the Company to convert Tanzanian shillings to United States dollars compared to prior years, however, as at the date of this report, this has not significantly impacted PAET's ability to meet its United States dollar obligations. There is a risk that in the future the Company may not be able to convert Tanzanian shillings to United States dollars as and when required.

6. Segment Information

The Company has one reportable industry segment which is international exploration, development and production of petroleum and natural gas. During the nine month periods ended September 30, 2021 and 2020 the Company's producing and exploration assets were entirely located in Tanzania. In 2019 the Company relinquished exploration and appraisal interests in Italy and the companies used for the Italian operations were wound up in Q2 2020.

7. Revenue

	Three months ended September 30		Nine months ended September 30	
$/000	2021	2020	2021	2020
Industrial sector	**9,098**	9,145	**27,713**	25,896
Power sector	**17,295**	15,143	**42,796**	40,920
Gross field revenue	**26,393**	24,288	**70,509**	66,816
TPDC share of revenue	**(6,933)**	(4,559)	**(16,275)**	(16,863)
Company operating revenue	**19,460**	19,729	**54,234**	49,953
Current income tax adjustment	**2,811**	1,130	**6,969**	5,941
	22,271	20,859	**61,203**	55,894

The Company recognized 100% of amounts invoiced for deliveries to TANESCO as revenue during the first nine months of 2020 and 2021. During Q3 2021, the Company invoiced TANESCO $7.5 million (Q3 2020: $5.9 million) for gas deliveries and received $5.2 million in payments (Q3 2020: $7.5 million). The Company: (i) recognized all amounts invoiced for gas deliveries in Q3 2021 as revenue; and (ii) recognized $ nil during the quarter (Q3 2020: $1.6 million) as a reversal of loss allowance relating to the amounts collected during the quarter that were applied towards the long-term TANESCO receivables previously allowed for (see Note 9). Subsequent to September 30, 2021 the Company invoiced TANESCO $1.8 million for October 2021 gas deliveries and TANESCO has paid the Company $3.0 million.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) continued

8. Finance Income and Expense

Finance Income

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
Interest income	**34**	185	**108**	720
Investment income	**–**	–	**–**	305
	34	185	**108**	1,025

Finance Expense

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
Base interest expense	**1,526**	1,469	**4,506**	4,363
Participation interest expense	**441**	(132)	**548**	1,082
Lease interest expense	**10**	24	**34**	72
Interest expense	**1,977**	1,361	**5,088**	5,517
Net foreign exchange loss (gain)	**47**	(359)	**354**	(496)
Indirect tax (recovery) expense	**(874)**	201	**1,614**	1,670
	1,150	1,203	**7,056**	6,691

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 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 base interest expense is payable quarterly in arrears. 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 under the take or pay provisions within the PGSA and for interest on late payments. Indirect tax for Q3 2021 includes a credit of $1.1 million relating to a credit note issued to TANESCO against an invoice raised under the take or pay provisions of the PGSA.

9. Current Trade and Other Receivables

	As at	
$'000	September 30, 2021	December 31, 2020
Trade receivables		
Songas	**2,196**	2,053
TPDC	**3,888**	7,417
TANESCO	**2,275**	–
Industrial customers	**9,606**	9,362
Loss allowance	**(452)**	(452)
	17,513	18,380
Other receivables		
Songas gas plant operations	**4,728**	4,571
Songas well workover program	**1,284**	–
Other	**11,002**	6,935
Loss allowance	**(6,062)**	(8,006)
	10,952	3,500
	28,465	21,880

9. Current Trade and Other Receivables continued

Songas

As at September 30, 2021 Songas owed the Company $8.2 million (December 31, 2020: $6.6 million), while the Company owed Songas $1.9 million (December 31, 2020: $2.0 million). The amounts due to the Company are mainly for gas sales of $2.2 million (December 31, 2020: $2.1 million) and for the operation of the gas plant of $4.7 million (December 31, 2020: $4.6 million) against which the Company has made a loss allowance of $0.7 million (December 31, 2020: $2.7 million). The amounts due to Songas primarily relate to pipeline tariff charges of $1.6 million (December 31, 2020: $1.7 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis.

TPDC

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

(Reversal of) loss allowance for receivables

	Three months ended September 30		Nine months ended September 30	
$'000	2021	2020	2021	2020
Reversal of loss allowance	**(1,944)**	(1,567)	**(3,762)**	(17,473)
Loss allowance	**–**	5,337	**–**	5,337
	(1,944)	3,770	**(3,762)**	(12,136)

In Q3 2021, the reversal of loss allowance follows the agreement to settle Songas operatorship arrears of $1.9 million (Q3 2020: $1.6 million from TANESCO). For the nine months ended September 30, 2021, the reversal of loss allowance includes the agreement to settle Songas arrears of $1.9 million, the collection of TANESCO arrears of $1.1 million and collection of $0.8 million of indirect taxes related to the receipt of funds for the TANESCO 2016 take or pay invoice that had been previously provided for. (nine months ended September 30, 2020: $1.1 million and $16.4 million from Songas and TANESCO, respectively). Songas operatorship arrears of $1.9 million were collected subsequent to September 30, 2021.

The loss allowance for 2020 is for a receivable from the Tanzanian Revenue Authority ("TRA") who issued an Agency Notice for $5.3 million obligating PAET's commercial bank in Tanzania to release funds in favor of the TRA. The tax dispute related to the Agency Notice is ongoing and based on the opinion of the Company's legal advisors there is better than a 50% chance of the dispute being resolved in favor of the Company (see Note 18). Subsequent to September 30, 2021, CAT ruled in favor of the TRA on the appeal. Currently the Company is exploring its options going forward on this matter. The Company recorded the $5.3 million as other receivables and fully allowed for the amount in dispute as the timing and likelihood for collection is uncertain.

10. Capital Assets

$'000	Natural gas interests	Office and other	Right-of-use	Total
Costs				
As at December 31, 2020	241,280	2,894	1,084	245,258
Additions	14,102	12	–	14,114
As at September 30, 2021	**255,382**	**2,906**	**1,084**	**259,372**
Accumulated depletion and depreciation				
As at December 31, 2020	132,588	2,864	343	135,795
Additions	11,133	31	218	11,382
As at September 30, 2021	**143,721**	**2,895**	**561**	**147,177**
Net book values				
As at September 30, 2021	**111,661**	**11**	**523**	**112,195**

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 September 30, 2021 the estimated future development costs required to bring the total proved reserves to production were $20.1 million (December 31, 2020 $34.2 million). The decrease is a result of expenditures during the nine months ended September 30, 2021. During the nine months ended September 30, 2021 the Company recorded depreciation of $0.2 million (nine months ended September 30, 2020: $0.4 million) in general and administrative expenses.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) continued

10. Capital Assets continued

Right-of-use assets

$'000	
As at December 31, 2020	741
Depreciation	(218)
As at September 30, 2021	**523**

Lease liabilities

$'000	
As at December 31, 2020	684
Lease interest expense	34
Lease payments	(181)
As at September 30, 2021	**537**

Right-of-use assets are presented as part of capital assets on the Company's balance sheet. Of the total lease liability of $0.5 million, $0.2 million is current and is presented in trade and other payables.

11. Trade and Other Payables

$'000	As at September 30, 2021	As at December 31, 2020
Songas	**1,933**	2,062
Other trade payables	**2,362**	2,573
Trade payables	**4,295**	4,635
TPDC Profit Gas entitlement, net	**22,486**	25,570
Deferred income – take or pay contracts[1]	**4,228**	–
Accrued liabilities	**9,290**	9,082
	40,299	39,287

[1] In April 2021 TANESCO paid a take or pay invoice of $5.0 million relating to the 2015-2016 contract year. Under the terms of the contract, TANESCO had until June 30, 2021 to utilize this amount in settlement of charges for gas delivered in excess of agreed volumes. In May 2021 the Company reached agreement with TANESCO to extend by 12 months the period in which they could utilize this payment. The deferred income will be released as revenue either: (i) as gas is taken; or (ii) in Q2 2022, should TANESCO be unable to take sufficient gas volumes to recover the take or pay amount.

TPDC share of Profit Gas

$'000	As at September 30, 2021	As at December 31, 2020
TPDC share of Profit Gas	**27,809**	30,405
Less "Adjustment Factor"	**(5,323)**	(4,835)
TPDC Profit Gas entitlement, net	**22,486**	25,570

Under the PSA revenue sharing mechanism, the Company adjusts TPDC's Profit Gas share by the "Adjustment Factor". The Adjustment Factor is equal to the amount necessary to fully pay and discharge the PAET liability for taxes on income derived from petroleum operations. A significant percentage of the settlement of the $22.5 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 September 30, 2021	As at December 31, 2020
Amounts invoiced to TANESCO	**118,045**	111,234
Trade receivables – TANESCO	**(2,275)**	–
Unrecognized amounts not meeting revenue recognition criteria[1]	**(89,278)**	(83,685)
Loss allowance	**(26,492)**	(27,549)
Net TANESCO receivable	**–**	–
VAT – Songas workovers	**2,205**	2,205
Lease deposit	**10**	9
	2,215	2,214

[1] The amount includes interest on late payments and take or pay charges 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 the first nine months of 2020 and 2021, however, during Q3 2021 the Company invoiced TANESCO $7.5 million (Q3 2020: $5.9 million) for gas deliveries and received $5.2 million in payments (Q3 2020: $7.5 million). In Q3 2021 the Company issued a credit note to TANESCO for $7.1 million (Q3 2020: $ nil) under the take or pay provision within the PGSA for the 2020 – 2021 contract year; this credit note has not been recognized as it does not meet revenue recognition criteria with respect to assurance of collectability.

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

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

$'000	As at September 30, 2021	As at December 31, 2020
Loan principal	**55,240**	55,240
Financing costs	**(677)**	(994)
Current portion of long-term loan	**(5,000)**	–
	49,563	54,246

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) continued

14. Capital Stock

Authorized

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

The Class A and Class B Shares rank pari passu in respect of dividends and repayment of capital in the event of winding-up. Class A Shares carry twenty (20) votes per share and Class B Shares carry one (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					
	September 30, 2021			December 31, 2020		
Number of shares	Authorized (000)	Issued (000)	Amount ($'000)	Authorized (000)	Issued (000)	Amount ($'000)
Class A Shares	**50,000**	**1,750**	**983**	50,000	1,750	983
Class B Shares	**100,000**	**18,231**	**46,545**	100,000	24,388	62,260
First preference shares	**100,000**	**–**	**–**	100,000	–	–
	250,000	**19,981**	**47,528**	250,000	26,138	63,243

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

On June 21, 2021 the Company commenced a normal course issuer bid ("NCIB") to purchase Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. To date, 9,400 Class B Shares have been purchased by the Company pursuant to the NCIB at an average price per Class B Share of CDN$5.31.

Changes in Stock Appreciation Rights ("SARs")

$'000	SARs (000)	Exercise price (CDN$)
Outstanding as at December 31, 2020	1,242	3.87 to 6.65
Exercised	(413)	5.00
Forfeited	(83)	5.00
Outstanding as at September 30, 2021	**746**	**3.87 to 6.65**

The number outstanding, the weighted average remaining life, the number exercisable and the weighted average exercise prices of SARs at September 30, 2021 were as follows:

Exercise price (CDN$)	Number outstanding (000)	Weighted average remaining contractual life (years)	Number exercisable (000)	Weighted average exercise price (CDN$)
3.87	60	1.25	30	3.87
5.00 to 6.65	686	1.29	227	5.19
3.87 to 6.65	**746**	**1.29**	**257**	**5.08**

14. Capital Stock continued

Changes in Restrictive Stock Units ("RSUs")

$'000	RSUs (000)	Exercise price (CDN$)
Outstanding as at December 31, 2020	133	0.01
Exercised	(48)	0.01
Forfeited	(9)	0.01
Outstanding as at September 30, 2021	**76**	**0.01**

The number outstanding, the number exercisable and the weighted average remaining life of RSUs at September 30, 2021 were as follows:

Exercise price (CDN$)	Number outstanding (000)	Number exercisable (000)	Weighted average remaining contractual life (years)
0.01	**76**	**24**	**1.33**

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 as the reporting date, the following assumptions have been made: a risk-free rate of interest of 1.0%, stock volatility of 31.0% to 37.0%, 5% forfeiture and a closing price of 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	September 30, 2021	December 31, 2020
SARs	**850**	1,683
RSUs	**302**	496
	1,152	2,179

Dividend Summary

Declaration date	Record date	Payment date	Amount per share (CDN$)
September 9, 2021	September 29, 2021	October 15, 2021	0.10
June 4, 2021	June 30, 2021	July 15, 2021	0.10
February 23, 2021	March 31, 2021	April 15, 2021	0.10
November 19, 2020	December 31, 2020	January 15, 2021	0.08
September 17, 2020	September 30, 2020	October 15, 2020	0.08
June 22, 2020	June 30, 2020	July 15, 2020	0.06
February 25, 2020	March 31, 2020	April 30, 2020	0.06

15. Earnings Per Share

	Three months ended September 30		Nine months ended September 30	
(000)	2021	2020	2021	2020
Outstanding shares				
Weighted average number of Class A and Class B Shares, basic	**19,984**	26,138	**20,664**	28,381
Weighted average number of Class A and Class B Shares, diluted	**19,984**	26,138	**20,435**	28,381

The calculation of earnings per share is based on a net income attributable to shareholders for the quarter of $7.6 million (Q3 2020: $1.5 million) and a weighted average number of Class A and Class B shares outstanding during the quarter ended September 30, 2020 of 19,983,631 (Q3 2020: 26,137,955). The calculation of earnings per share for the nine months ended September 30, 2021 is based on a net income of $14.8 million (nine months ended September 30, 2020: $20.4 million) and a weighted average number of Class A and Class B shares outstanding for the nine months ended September 30, 2021 of 20,434,779 (nine months ended September 30, 2020: 28,381,477).

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) continued

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. Fees for services provided by this firm totalled $0.1 million during the quarter ended September 30, 2021 (Q3 2020: $0.1 million) and $0.3 million for the nine months ended September 30, 2021 (nine months ended September 30, 2020: $0.8 million).

As at September 30, 2021 the Company had a total of $0.1 million (December 31, 2020: $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 251 Bcf as at September 30, 2021 (December 31, 2020: 235 Bcf). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the term of the Protected Gas delivery obligation to July 2024.

Terms of the Gas Agreement were modified by the Amended and Restated Gas Agreement ("ARGA") which was 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 commitments are in relation to the compression contract, originally priced at $38.0 million which has increased through variations to $41.7 million and the upcoming workover program with an estimated gross cost of $21.4 million. To date, $39.2 million of the compression contract has been paid, the remaining forecasted capital expenditures under this contract are $2.5 million in 2022. The total amount for the workover contract is forecasted to be paid by the end of 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.

Cost Recovery

TPDC conducted an audit of historical costs (the "Cost Pool") and in 2011 disputed approximately $34.0 million of costs that had been recovered from the Cost Pool from 2002 through to 2009. In 2014 a substantial portion of the disputed costs were agreed to be cost recoverable by TPDC. Under the dispute mechanism outlined in the PSA, parties are to agree the appointment of an independent specialist to assist the parties in reaching agreement on costs that are still subject to dispute. In 2014, prior to appointing an independent specialist, TPDC suspended the process. From 2010 to 2015 TPDC rejected a further $18.0 million of costs. In 2016 the Tanzanian Petroleum Upstream Regulatory Authority ("PURA") assumed the role of auditing the PSA cost pool from TPDC and for 2016 to 2018 have rejected all costs pertaining to downstream development amounting to $9.6 million and a further $4.4 million of other costs. To date there remains a total of $56.2 million of costs that have been queried or rejected by TPDC or PURA through the cost pool audit process.

During 2019 discussions on the disputed amounts from 2002 through to 2009 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 any 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.

18. Contingencies continued

Tax

Amounts in $' millions					As at September 30, 2021	As at December 31, 2020
Area	Period	Reason for dispute	Principal	Interest	Total	Total
Pay-As-You-Earn ("PAYE") tax	2008-16	PAYE tax on grossed-up amounts in staff salaries which are contractually stated as net.	1.2	0.5	**1.7**	1.6
Withholding tax ("WHT")	2005-16	WHT on services performed outside of Tanzania by non-resident persons, on deemed dividends, loan interest and other services.	5.7	3.3	**9.0**	8.7
Income Tax	2008-16	Deductibility of capital expenditures and expenses (2009, 2012, 2015 and 2016), additional income tax (2008, 2010, 2011 and 2012), tax on repatriated income (2012), deemed branch dividends (2015 and 2016), foreign exchange rate application (2013 and 2015) and underestimation of tax due (2014).	35.1	17.9	**53.0**	52.1
VAT	2008-18	Output VAT on imported services and SSI Operatorship services (2008-16), interest on VAT decreasing adjustments and input VAT on services (2017 and 2018).	2.8	4.1	**6.9**	6.8
			44.8	25.8	**70.6**	69.2

During Q2 2021 the Company paid the TRA $1.8 million as a deposit against the disputed taxes including PAYE tax, WHT, income tax and VAT for the years 2012-16, an amount agreed upon in order for TRA to admit the outstanding tax objections. In Q3 2021, the Court of Appeal of Tanzania ("CAT") delivered its judgment on an appeal instituted by the Company on appealability of one-third deposit required to admit objections for the year of income of 2012. CAT decided that the matters are not tax decisions and are therefore not appealable. Aggrieved by the decision, management intends to file an application for the review of the decision at the same court. The decision, however, will not affect the position on admission of objections for the years 2012-16.

During 2020 the TRA conducted audits of 2017 and 2018 and issued two assessments with regards to VAT ($1.2 million) and WHT ($0.01 million). The Company has conceded to the TRA with respect to the WHT assessment ($0.01 million) and a portion of the VAT assessment ($0.06 million). However, the Company has objected to the incorrect imposition of interest on VAT decreasing adjustments on TANESCO payments ($1.1 million) and disallowing input VAT claimed in certain services ($0.1 million). No final assessments have been issued to date with respect to corporation tax, excise duty or payroll tax for 2017 and no preliminary assessment has yet been received for 2018. 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 provision is required with regards to these matters and that the maximum potential exposure is $65.0 million (December 31, 2020: $63.6 million). The difference between the total disputed amounts and the maximum potential exposure results from the $5.3 million and $0.3 million PAET's commercial bank in Tanzania transferred to the TRA with regards to disputed 2008-10 output VAT and disputed 2008-10 PAYE tax, respectively. The Company has filed an appeal for the action to be reversed as the bank made the transfer under instructions from the TRA. Subsequent to September 30, 2021, CAT ruled in favor of the TRA on the appeal. Currently the Company is exploring its options going forward on this matter. The amount is recorded in trade and other receivables and has been fully provided for pending the result of the appeal.

The process of appealing assessments issued by the TRA start by initially filing an appeal with the TRA. If this is not successful, claims can be taken to higher authorities starting with the Tanzania Revenue Appeals Board ("TRAB"), followed by an appeal to the Tax Revenue Appeals Tribunal ("TRAT") and finally to the CAT. See Note 21 of the audited consolidated financial statements for the year ended December 31, 2020 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 keep under review the tax effects of the changes as there are a number of uncertainties and ambiguities as to the interpretation and application of certain provisions of the WLMAA, 2017. In the absence of guidance on these matters, the Company has used what it believes are reasonable interpretations and assumptions in applying the WLMAA, 2017 for purposes of determining its tax liabilities and the results of operations, which may change as it receives additional clarification and implementation guidance. The Company does not expect a significant impact from the changes as it is able to recover taxes payable from the TPDC Profit Gas revenue entitlement under the terms of the PSA.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) continued

19. Change in Non-Cash Operating Working Capital

	Three months ended September 30		Nine months ended September 30	
(000)	2021	2020	2021	2020
(Increase) decrease in trade and other receivables	**(7,265)**	1,214	**(8,201)**	(1,326)
Decrease in prepayments	**202**	2,751	**437**	2,024
Increase (decrease) in trade and other payables	**3,864**	(6,075)	**1,757**	(12,874)
Decrease in APT	**–**	–	**(11,546)**	(11,938)
Increase (decrease) in tax payable	**988**	90	**(51)**	1,428
(Decrease) increase in long-term receivable	**(1)**	38	**(1)**	36
	(2,212)	(1,982)	**(17,605)**	(22,650)

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 September 30, 2021, the Company has not received any distributions or recorded any amount receivable related to the Preference Shares.

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

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

	As at	
$'000	September 30, 2021	December 31, 2020
Balance, beginning of period	**1,523**	163
Net income attributable to non-controlling interest	**1,226**	1,360
Balance, end of period	**2,749**	1,523

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

Blaine Karst
Chief Financial Officer
Calgary, Canada

Lisa Mitchell
Chief Financial Officer
(from November 1, 2021)
London, UK

Andrew Hanna
Managing Director, PAET
Surrey, UK

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