Orca Energy Group Inc.

2022 Q3 Interim Report

RELIABLY PROVIDING 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, 2022 SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND NOTES FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TOGETHER WITH THE MD&A FOR THE YEAR ENDED DECEMBER 31, 2021. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON NOVEMBER 15, 2022. ALL AMOUNTS ARE REPORTED IN US DOLLARS ("$") UNLESS OTHERWISE NOTED.

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

Nature of Operations

The principal asset of Orca Energy Group Inc. ("Orca" or the "Company") is its interest in the Production Sharing Agreement ("PSA") with the Tanzanian Petroleum Development Corporation ("TPDC") and the Government of Tanzania ("GoT") in the United Republic of Tanzania. This PSA covers the production and marketing of natural gas from the Songo Songo license offshore Tanzania. The PSA defines the gas produced from the Songo Songo gas field as "Protected Gas" and "Additional Gas". The Protected Gas is owned by TPDC and is sold under a 20-year gas agreement (until July 31, 2024) to Songas Limited ("Songas") and Tanzania Portland Cement PLC ("TPCPLC"). Songas is the owner of the infrastructure that enables the gas to be treated and delivered to Dar es Salaam, which includes a gas processing plant on Songo Songo Island (collectively, the "Songas Infrastructure").

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

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

In addition to supplying gas to TPDC, Songas and TANESCO, the Company has developed over 50 contracts to supply gas to Dar es Salaam's industrial market.

Outlook – COVID-19

There has been no significant change in the Company's business during 2022 as a result of the coronavirus pandemic ("COVID-19"). The Tanzanian government introduced new restrictions and started a vaccination program in an effort to control the spread of COVID-19 however given the steps already taken by the Company, while logistic supply chains have been stretched and delays incurred in the earlier stages of the pandemic, no significant impact on our operations or business results were experienced as a result of COVID-19.

Financial and Operating Highlights for the Three and Nine Months Ended September 30, 2022

(Expressed in $'000 unless indicated otherwise)	Three months ended September 30 2022	Three months ended September 30 2021	% Change Q3/22 vs Q3/21	Nine months ended September 30 2022	Nine months ended September 30 2021	% Change Ytd/22 vs Ytd/21
OPERATING						
Daily average gas delivered and sold (MMcfd)	92.1	64.5	43%	83.9	57.8	45%
Industrial	12.8	11.6	10%	13.6	12.9	5%
Power	79.3	52.9	50%	70.3	44.9	57%
Average price ($/mcf)						
Industrial	8.79	8.54	3%	8.64	7.89	10%
Power	3.60	3.55	1%	3.58	3.49	3%
Weighted average	4.33	4.45	(3)%	4.40	4.47	(2)%
Operating netback ($/mcf)[1]	2.41	2.75	(12)%	2.69	2.87	(6)%
FINANCIAL						
Revenue	30,537	22,271	37%	86,212	61,203	41%
Net income attributable to shareholders	11,443	7,613	50%	25,401	14,822	71%
per share – basic and diluted ($)	0.57	0.38	50%	1.27	0.73	74%
Net cash flows from operating activities	19,544	12,132	61%	52,222	21,589	142%
per share – basic and diluted ($)	0.98	0.61	61%	2.62	1.06	147%
Capital expenditures[1]	1,222	3,715	(67)%	18,791	14,114	33%
Weighted average Class A and Class B Shares[1] ('000)	19,918	19,984	0%	19,933	20,435	(2)%

	As at September 30, 2022	As at December 31, 2021	% Change
Working capital (including cash)[1]	57,566	41,776	38%
Cash and cash equivalents	93,118	72,985	28%
Long-term loan	44,815	49,603	(10)%
Outstanding shares ('000)			
Class A	1,750	1,750	0%
Class B	18,151	18,203	0%
Total shares outstanding	19,901	19,953	0%

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

Management's Discussion & Analysis cont.

Financial and Operating Highlights for Q3 2022

- Revenue increased by 37% for Q3 2022 and by 41% for the nine months ended September 30, 2022 compared to the same prior year periods. The increases were primarily a result of increased sales to customers in the power sector. Gas deliveries increased by 43% for Q3 2022 and by 45% for the nine months ended September 30, 2022 compared to the same prior year periods. The increase in gross sales volume was primarily due to the increase in gas deliveries to customers in the power sector as a result of increased deliveries to TPDC and TANESCO.
  It is expected that average gross gas sales volumes will be at the high end of the Company's current forecast for 2022 of 80-86 MMcfd.
- Net income attributable to shareholders increased by 50% for Q3 2022 and by 71% for the nine months ended September 30, 2022 compared to the same prior year periods, primarily a result of the increased revenues.
- Net cash flows from operating activities increased by 61% for Q3 2022 and by 142% for the nine months ended September 30, 2022 compared to the same prior year periods. This was primarily a result of the increased revenue and non-cash adjustments and decreases in volumes of trade and other receivables.
- Capital expenditures decreased by 67% for Q3 2022 and increased by 33% for the nine months ended September 30, 2022 compared to the same prior year periods. The capital expenditures in Q1, Q2 and Q3 2022 primarily related to completion of the well workover program for the SS-3, SS-4 and SS-10 wells, the compression project and the 3D seismic acquisition program.
- The Company completed installation and commissioning of feed gas compression on the Songas gas processing plant in March 2022. This maintains the Company's ability to supply current demand at the maximum capacity of the Songas Infrastructure (being the infrastructure that enables the gas to be delivered to Dar es Salaam, which includes a gas processing plant on Songo Songo Island) of approximately 100 MMcfd. The sustainability of this deliverability will be impacted by ongoing total demand including any additional volumes flowing through the NNGI plant.
- In April 2022, the drilling rig was released having completed the planned well workover program. The $31.6 million program included the reactivation of the SS-3 and SS-4 wells, along with the installation of corrosion resistant production tubing on all three of the wells. The SS-3 well was placed on production on February 15, 2022 and the SS-10 well was returned to production on April 18, 2022. The SS-4 well was unable to flow naturally due to liquid loading. The Company has now carried out a nitrogen gas lift of the SS-4 well with a coiled tubing unit to lift excess liquid from the well bore and the well has again flowed gas naturally. Work is now ongoing to set the optimal operating parameters in order to have the well available for production.
- The workovers and compression facilities provide the opportunity to increase short term field production potential to approximately 155 MMcfd with some production through the adjacent NNGI facilities also on Songo Songo Island.
- The Company is currently carrying out a 3D seismic acquisition program, budgeted at $22.7 million in order to de-risk future development drilling and to evaluate the potential of prospective resources for exploration drilling. The Company awarded and signed a contract with African Geophysical Services LLP on July 7, 2022, to acquire approximately 181 square kilometers of 3D marine, transition and land based seismic over the Songo Songo license area. The Company is targeting completion of the seismic acquisition program in Q1 2023.
- The Company successfully completed smart pigging of the SS-3, SS-4 SS-5, SS-7 and SS-9 flowlines, identifying a number of areas of advancing corrosion or erosion. Immediate, low cost repairs of sections of flowline have been conducted and wells returned to operations with minimal impact on overall production. The Company is now planning a program of full flowline repairs on two flowlines in 2023 in accordance with the Company's integrity management plan.
- The Company has conducted a range of sand monitoring operations following recent sand production modelling and limited sand production through several wells. Sand mitigation measures have also been implemented, including: down hole sand control in two of the recent well workovers; the installation of one fixed acoustic detector at the inlet manifold of the Songas gas processing plant, and one mobile acoustic detector which can be aligned to individual wells as necessary; and the installation of a cyclonic de-sanding unit at the SS-10 wellhead, with a second ready for installation on the next well, to be prioritised through further testing. All wells, with the exception of the SS-12 well which is permanently aligned to the NNGI plant, and the SS-4 and SS-7 wells which are currently not on production, have been individually aligned to the test separator to assess each for sand production. The Company has also proposed the purchase of an additional five wellhead de-sanding units in 2023.
- The Company exited the period in a strong financial position with $57.6 million in working capital (December 31, 2021: $41.8 million), cash and cash equivalents of $93.1 million (December 31, 2021: $73.0 million) and long-term debt of $44.8 million (December 31, 2021: $49.6 million). The decrease in long-term debt was related to reclassification of $5.0 million of long-term debt into current liabilities as it becomes due in April 2023. Subsequent to September 30, 2022 the Company made a payment of $5.0 million, representing the first semi-annual repayments of its long-term debt.
- As at September 30, 2022 the current receivable from TANESCO was $ nil (December 31, 2021: $2.0 million). TANESCO's long-term trade receivable as at September 30, 2022 was $20.9 million with a provision of $20.9 million (December 31, 2021: $26.5 million with a provision of $26.5 million). Subsequent to September 30, 2022 TANESCO paid the Company $2.2 million and the Company invoiced TANESCO $4.8 million for October 2022 gas deliveries. Subsequent to September 30, 2022 TANESCO also paid the Company $8.4 million against the 2018 take or pay invoice.
- On September 28, 2022, the Company declared a dividend of CDN$0.10 per share on each of its Class A common shares ("Class A Shares") and Class B subordinate voting shares ("Class B Shares") for a total of $1.5 million to the holders of record as of October 14, 2022, which was paid on October 28, 2022.

Financial and Operating Highlights for Q3 2022 cont.

- On July 11, 2022 the Company commenced a normal course issuer bid ("2022 NCIB") to purchase Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. As at September 30, 2022 the Company had repurchased 22,000 Class B shares at a weighted average price of CDN$4.96 per share pursuant to the 2022 NCIB.
- On August 8, 2022, the Company issued a redemption notice to Swala Oil & Gas (Tanzania) plc ("Swala TZ"), requesting that Swala TZ redeem 20% of the outstanding Swala TZ's convertible preference shares by August 23, 2022, that were issued to the Company in accordance with the investment agreement dated December 29, 2017, between the Company, the Company's subsidiary PAE PanAfrican Energy Corporation ("PAEM") and Swala's TZ subsidiary, Swala (PAEM) Limited ("Swala UK"). Swala TZ has responded to the Company's redemption notice and is disputing its obligation to redeem the Swala TZ convertible preference shares. As at September 30, 2022 and November 15, 2022 this matter remains in dispute between Swala TZ and the Company and the redemption notice request remains outstanding.
- On August 5, 2022, the Fair Competition Commission of the United Republic of Tanzania ("FCC") issued Provisional Findings with respect an investigation the FCC initiated against Orca, PAEM, PanAfrican Energy Tanzania Limited ("PAET") and Swala UK and Swala TZ in response to a letter Swala TZ sent the FCC on March 31, 2022. In the Provisional Findings, the FCC claims that Orca's sale of investment shares held in PAEM to Swala UK pursuant to the Investment Agreement amounted to a notifiable merger whose non-notification infringed the provisions of the Fair Competition Act, 2003 and the Fair Competition Rules, 2018. In September 2022 the Company responded to the FCC's Provisional Findings submitting that the transactions did not amount to a prohibited merger and that, if the transactions were notifiable, it was Swala UK who had the obligation to notify the authorities of the merger and not Orca, PAEM and PAET. The Company is confident that there is no merit to the allegations of the FCC against the Company.

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

Operating Volumes

The average gross daily sales volume increased by 43% for Q3 2022 and by 45% for the nine months ended September 30, 2022 over the comparable prior year periods, primarily as a result of the increased sales of natural gas to the power sector.

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

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Gross sales volume (MMcf)				
Industrial sector	**1,181**	1,065	**3,714**	3,511
Power sector	**7,297**	4,866	**19,177**	12,262
Total volumes	**8,478**	5,931	**22,891**	15,773
Gross daily sales volume average (MMcfd)				
Industrial sector	**12.8**	11.6	**13.6**	12.9
Power sector	**79.3**	52.9	**70.3**	44.9
Gross daily sales volume average total	**92.1**	64.5	**83.9**	57.8

Industrial Sector

Industrial sector gross daily sales volume increased by 10% for Q3 2022 and by 5% for the nine months ended September 30, 2022 over the comparable prior year periods. The increases were a result of increased consumption by industrial customers due to a higher demand for services and products.

Power Sector

Power sector gross daily sales volumes increased by 50% for Q3 2022 and by 57% for the nine months ended September 30, 2022 over the comparable prior year periods. The increases were primarily due to increased gas sales to TPDC though the NNGI and to TANESCO.

Protected Gas Volumes

Protected Gas volumes decreased by 7% to 3,184 MMcf (34.6 MMcfd) for Q3 2022 compared to 3,411 MMcf (37.1 MMcfd) for Q3 2021 and increased by 6% to 9,993 MMcf (36.6 MMcfd) for the nine months ended September 30, 2022 compared to 9,401 MMcf (34.4 MMcfd) for the nine months ended September 30, 2021. The Company receives no revenue for Protected Gas volumes, however the volumes are required to calculate total gas produced from the reservoir and the allocation of certain production, distribution and transportation expenses between Protected Gas and Additional Gas.

Management's Discussion & Analysis cont.

Commodity Prices

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

$/mcf	Three months ended September 30 2022	Three months ended September 30 2021	Nine months ended September 30 2022	Nine months ended September 30 2021
Average sales price				
Industrial sector	**8.79**	8.54	**8.64**	7.89
Power sector	**3.60**	3.55	**3.58**	3.49
Weighted average price	**4.33**	4.45	**4.40**	4.47

Industrial Sector

The average industrial sector sales price increased by 3% for Q3 2022 and by 10% for the nine months ended September 30, 2022 over the comparable prior year periods. The increases in prices are 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 1% for Q3 2022 and by 3% for the nine months ended September 30, 2022 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.

Revenue

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

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

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

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

$'000	Three months ended September 30 2022	Three months ended September 30 2021	Nine months ended September 30 2022	Nine months ended September 30 2021
Industrial sector	**10,381**	9,098	**32,081**	27,713
Power sector	**26,300**	17,295	**68,729**	42,796
Gross field revenue	**36,681**	26,393	**100,810**	70,509
TPDC share of revenue	**(11,478)**	(6,933)	**(25,920)**	(16,275)
Company operating revenue	**25,203**	19,460	**74,890**	54,234
Current income tax adjustment	**5,534**	2,811	**11,322**	6,969
	30,537	22,271	**86,212**	61,203

Revenue increased by 37% for Q3 2022 and by 41% for the nine months ended September 30, 2022 over the comparable prior year periods. The increases are primarily a result of increased sales to the power sector partially offset by a higher TPDC share of revenue as a result of increased gross field revenue.

The average Additional Gas sales volumes for the quarters ended September 30, 2022 and September 30, 2021 as well as for the quarters ended June 30, 2022, March 31, 2022, June 30, 2021 and March 31, 2021 were above 50 MMcfd which entitled the Company to a 55% share of Profit Gas revenue. The Company was allocated a total of 65% of the Additional Gas net field revenue for Q3 2022 (Q3 2021: 72%) and a total of 72% of the Additional Gas net field revenue for the nine months ended September 30, 2022 (nine months ended September 30, 2021: 75%).

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	2022	2021	2022	2021
Operating costs	836	518	2,302	1,482
Tariff for processing and pipeline infrastructure	3,394	2,095	8,870	5,785
Ring-main distribution costs	605	549	2,040	1,730
	4,835	3,162	13,212	8,997

Operating costs include well maintenance costs, PSA license costs, regulatory fees, insurance, certain costs associated with evaluation of the reserves and the costs of personnel not recoverable from Songas. Operating costs are allocated between Protected Gas (recoverable from Songas) and Additional Gas in proportion to their respective volumes during the period. Operating costs increased by 61% for Q3 2022 and by 55% for the nine months ended September 30, 2022 compared to the same prior year periods, primarily as a result of a reclassification of insurance costs from ring-main distribution costs in Q1 2022 and following the completion of smart pigging in Q2 and Q3 2022. The amount paid under the tariff for processing and pipeline infrastructure increased by 62% for Q3 2022 and by 53% for the nine months ended September 30, 2022 compared to the same prior year periods, primarily as result of increased gas volumes processed and delivered through the Songas Infrastructure. Ring-main distribution costs increased by 10% for Q3 2022 and by 18% for the nine months ended September 30, 2022 compared to the same prior year periods, primarily as a result of higher maintenance costs for the distribution network which transports the gas to industrial customers.

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 financial measures and ratios"):

	Three months ended September 30		Nine months ended September 30	
$/mcf	2022	2021	2022	2021
Weighted average price for gas	4.33	4.45	4.40	4.47
TPDC Profit Gas entitlement	(1.35)	(1.17)	(1.13)	(1.03)
Production, distribution and transportation expenses	(0.57)	(0.53)	(0.58)	(0.57)
Operating netback	2.41	2.75	2.69	2.87

The operating netback decreased by 12% for Q3 2022 and by 6% for the nine months ended September 30, 2022 over the comparable prior year periods. The decreases are mainly due to the decrease in the weighted average price for natural gas as a result of an increased share of sales to the power sector as well as an increase in TPDC's Profit Gas revenue in Q2 2022 following the negotiated agreement between the Company and Tanzanian Petroleum Upstream Regulatory Authority ("PURA") on certain audit cost pool rejections with respect to 2016 to 2018 in the amount of $2.7 million.

General and Administrative Expenses

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

	Three months ended September 30		Nine months ended September 30	
$'000	2022	2021	2022	2021
Tanzania	1,983	1,523	5,673	5,055
Corporate	1,399	896	4,055	3,619
	3,382	2,419	9,728	8,674

Management's Discussion & Analysis cont.

General and Administrative Expenses cont.

General and administrative expenses are detailed in the tables below:

	Three months ended September 30		Nine months ended September 30	
$'000	2022	2021	2022	2021
Employee and related costs	1,571	1,278	5,013	5,086
Office costs	1,208	411	3,154	1,931
ESG, marketing and business development costs	217	311	335	640
Reporting, regulatory and corporate	386	419	1,226	1,017
	3,382	2,419	9,728	8,674

General and administrative expenses averaged $1.1 million per month during Q3 2022 (Q3 2021: $0.8 million) and $1.1 million per month for the nine months ended September 30, 2022 (nine months ended September 30, 2021: $1.0 million). The 1% decrease in employee and related costs for the nine months ended September 30, 2022 over the comparable prior year period was mainly due to the reduction in bonus payments. The 63% increase in office costs for the nine months ended September 30, 2022 over the comparable prior year period was a result of increased costs related to business travel and logistical services in Tanzania. The 48% decrease in ESG, marketing and business development costs for the nine months ended September 30, 2022 over the comparable prior year period was a result of phasing in ESG related expenditure for the construction of the Chumo Health Centre, and the NAHAMA dispensary in Tanzania . The 21% increase in reporting, regulatory and corporate costs for the nine months ended September 30, 2022 over the comparable prior year period was due to increase in costs related to professional and legal services.

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	2022	2021	2022	2021
Stock appreciation rights ("SARs")	(42)	(65)	23	(462)
Restricted stock units ("RSUs")	(32)	9	(142)	(15)
	(74)	(56)	(119)	(477)

As at September 30, 2022 a total of 369,666 SARs were outstanding (December 31, 2021: 746,166). No new SARs were issued or forfeited, and 376,500 SARs were exercised during Q1, Q2 and Q3 2022. As at September 30, 2022 a total of 36,267 RSUs were outstanding (December 31, 2021: 76,366 RSUs). No new RSUs were issued or forfeited, and 40,099 RSUs were exercised during Q1, Q2 and Q3 2022.

As SARs and RSUs are settled in cash, they are re-valued at each reporting date using the Black-Scholes option pricing model with the resulting liability being recognized in trade and other payables. In the valuation of SARs and RSUs as at September 30, 2022, the following assumptions have been made: a risk free rate of interest of 1.0%, stock volatility of 14.1% to 25.7%, 5% forfeiture and a closing stock price of CDN$4.80 per Class B share. The valuation of the SARs and RSUs awards is increased to reflect the amount of dividends paid between the award and exercise dates.

As at September 30, 2022 a total accrued liability of $0.5 million (December 31, 2021: $1.1 million) has been recognized in relation to SARs and RSUs. The Company recognized $0.07 million for Q3 2022 as stock based compensation recovery (Q3 2021: $0.06 million) and $0.1 million for the nine months ended September 30, 2022 as stock based compensation recovery (nine months ended September 30, 2021: $0.5 million).

Depletion and Depreciation

Natural gas properties are depleted using the unit of production method based on the production for the period as a percentage of the total future production from the Songo Songo proved reserves. The average depletion rate was $0.84/mcf for the quarter and the nine months ended September 30, 2022 compared to $0.71/mcf for the comparable prior year periods.

	Three months ended September 30		Nine months ended September 30	
$'000	2022	2021	2022	2021
Oil and natural gas interests	7,144	4,186	19,288	11,133
Office and other	23	8	45	31
Right-of-use assets	69	73	215	218
	7,236	4,267	19,548	11,382

The depletion for natural gas interests increased by 71% for Q3 2022 and by 73% for the nine months ended September 30, 2022 over the comparable prior year periods. The increases were primarily the result of increased gas produced and sold, additional capital expenditure, and a reduction in estimated proved reserves, notwithstanding the foregoing, increases in production rates may potentially add reserves during the remaining licence period contingent resources are upgraded.

Finance Income and Expense

Finance income is detailed in the table below:

	Three months ended September 30		Nine months ended September 30	
$'000	2022	2021	2022	2021
Interest income	187	34	313	108
	187	34	313	108

Finance expense is detailed in the table below:

	Three months ended September 30		Nine months ended September 30	
$'000	2022	2021	2022	2021
Base interest expense	1,482	1,526	4,402	4,506
Participation interest expense	878	441	1,786	548
Lease interest expense	6	10	19	34
Interest expense	2,366	1,977	6,207	5,088
Net foreign exchange loss	93	47	313	354
Indirect tax expense (recovery)	307	(874)	772	1,614
	2,766	1,150	7,292	7,056

Base and participation interest expense relate to the $60 million long-term loan ("Loan") from the International Finance Corporation ("IFC") to the Company's subsidiary operating in Tanzania, PAET. Base interest on the Loan is payable quarterly in arrears at 10% per annum on a 'pay-if-you-can-basis' using a formula to calculate the net cash available for such payments as at any given interest payment date. The participation interest expense is paid annually in arrears. It equates to 6.4% of PAET's net cash flows from operating activities net of net cash flows used in investing activities for the year. Such participation interest will continue until October 15, 2026 regardless of whether the Loan is repaid prior to its contractual maturity date. The increase in participation interest expense is primarily a result of the increase in PAET's net cash flows from operating activities net of net cash used in investing activities increasing the participation interest expense for the three and nine months ended September 30, 2022 over the comparable prior year periods.

Net foreign exchange losses are the result of transactions in foreign currencies recorded at the rate of exchange prevailing on the date of such transactions. Monetary assets and liabilities in foreign currencies are translated at period-end rates. Non-monetary items are translated at historic rates, unless such items are carried at market value, in which case they are translated using the exchange rates that existed when the values were determined. These foreign exchange gains and losses are recorded in finance expense.

The indirect tax is for value added tax ("VAT") associated with invoices to TANESCO under the take or pay provisions within the PGSA and for interest on late payments. No take or pay invoice has been issued thus far in 2022 whereas the take or pay invoice for the net amount of $6.7 million was issued in 2021 resulting in a higher indirect tax expense during the nine months ended September 30, 2021.

Management's Discussion & Analysis cont.

Reversal of Loss Allowance for Receivables

	Three months ended September 30		Nine months ended September 30	
$'000	2022	2021	2022	2021
Reversal of loss allowance	(5,573)	(1,944)	(7,622)	(3,672)
Loss allowance	195	–	195	–
	(5,378)	(1,944)	(7,427)	(3,672)

In Q3 2022, the reversal of loss allowance follows collection of TANESCO arrears of $5.6 million (Q3 2021: no collections of TANESCO arrears) which had been previously allowed for and represents the excess of receipts over gas sales invoiced during the year. In Q3 2021 the reversal of loss allowance follows collection of Songas operatorship arrears of $1.9 million which had been previously allowed for.

The reversal of loss allowance of $7.6 million for the nine months ended September 30, 2022 (nine months ended September 30, 2021: $3.7 million) also includes indirect taxation of $2.0 million related to the TANESCO 2017 take or pay invoice which was paid in Q2 2022 and had not previously been recognized (nine months ended September 30, 2021: $0.8 million related to TANESCO 2016 take or pay invoice). Additionally, the reversal of loss allowance for the nine months ended September 30, 2021 includes collection of TANESCO arrears of $1.1 million which had been previously allowed for.

The loss allowance of $0.2 million for Q3 2022 represents the net amount of: (i) $0.5 million previously allowed for (Q4 2021) with respect to the dispute with the Tanzanian Revenue Authority ("TRA") on the issue of withholding tax on services performed outside Tanzania by non-resident persons in 2010 and 2015-16; and (ii) $0.7 million representing the settlement amount with respect to the above withholding tax dispute. In Q3 2022 the Company, with advice from its legal counsel, agreed to settle the dispute and made the payment to TRA on August 24, 2022.

Additional Profits Tax

	Three months ended September 30		Nine months ended September 30	
$'000	2022	2021	2022	2021
APT	2,441	1,446	5,343	3,395

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

The timing and the effective rate of APT depends on the realized value of Profit Gas revenue which in turn depends on the level of expenditure. The Company provides for APT by annually forecasting the total APT payable in the future as a proportion of the forecast Profit Gas revenue over the term of the PSA. The forecast takes into account the timing of future development capital spending. As at September 30, 2022 the current portion of APT payable was $9.8 million (December 31, 2021: $8.5 million) with a long-term APT payable of $16.4 million (December 31, 2021: $20.9 million). APT of $8.5 million was paid in Q1 2022 based on the 2021 results (Q1 2021: $11.5 million based on 2020 results).

The effective APT rate for Q3 2022 of 17.3% (Q3 2021: 17.1%) has been applied to Profit Gas revenue of $14.2 million for Q3 2022 (Q3 2021: $7.4 million) and $30.8 million for the nine months ended September 30, 2022 (nine months ended September 30, 2021: $18.5 million). Accordingly, $2.4 million for Q3 2022 (Q3 2021: $1.4 million) and $5.3 million for the nine months ended September 30, 2022 (nine months ended September 30, 2021: $3.4 million) of APT has been recorded in the Company's Consolidated Interim Statements of Comprehensive Income.

Working Capital

Working capital as at September 30, 2022 was $57.6 million (December 31, 2021: $41.8 million) and is detailed in the table below:

$'000	As at September 30, 2022		As at December 31, 2021	
Cash and cash equivalents		93,118		72,985
Trade and other receivables				
Songas	14,018		8,776	
TPDC	8,150		5,603	
TANESCO	–		2,042	
Industrial customers and other receivables	14,630		15,487	
Loss allowance	(1,177)	35,621	(1,177)	30,731
Prepayments		476		1,133
		129,215		104,849
Trade and other payables				
TPDC share of Profit Gas revenue[1]	24,272		21,911	
Songas	3,002		1,899	
Deferred income – take or pay contracts[2]	3,852		5,215	
Other trade payables and accrued liabilities	13,375		17,751	
Current portion of long-term loan	10,000		5,000	
Current portion of APT	9,819	64,320	8,461	60,237
Tax payable		7,329		2,836
		71,649		63,073
Working capital		57,566		41,776

1 The balance of $24.3 million payable to TPDC is the liability for TPDC's share of Profit Gas revenue, primarily related to unpaid gas deliveries to TANESCO. The majority of the settlement of this liability is dependent on receipt of payment from TANESCO for arrears. For their allocation of Profit Gas revenue, the Company paid TPDC $ $3.3 million in January 2022, $3.4 million in April 2022, $6.2 million in July 2022 and 11.0 million in October 2022.

2 In April 2022 TANESCO paid the take or pay invoice of $13.4 million for the 2016-2017 contract year for gas to be taken by June 30, 2022. In 2022 the Company reached an agreement with TANESCO to extend by 12 months the time period for the previously untaken gas to be taken prior to the end of Q2 2023. The deferred income amount will be released to the Company's Statements of Comprehensive Income as revenue either as gas is taken or in Q2 2023 should TANESCO be unable to take sufficient gas volumes to recover the full take or pay amount.

Financial Instruments

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

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Working Capital cont.

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 interest payments ($1.4 million) and capital expenditure ($2.5 million) for 2022. The Company hasn't incurred any losses from debtors in 2021 and in nine months ended September 30, 2022 and does not expect to incur any losses from debtors in 2022. The Company maintains adequate cash and cash equivalents on hand to ensure it can meet all its capital expenditure obligations and deal with possible fluctuations in liquidity from operational problems including any potential impact from COVID-19. The Company does not anticipate any circumstances that are reasonably likely to occur that could significantly impact the Company's cash flows and liquidity, however, it has been more difficult for the Company to convert Tanzanian shillings to United States dollars recently, and 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. It is unknown how long the difficultly of the Company converting Tanzanian shillings to United States dollars will continue.

TANESCO Receivable

As at September 30, 2022 the current receivable from TANESCO was $ nil (December 31, 2021: $2.0 million). During Q3 2022 the Company invoiced TANESCO $17.2 million for gas deliveries (Q3 2021: $7.5 million) and received $16.9 million in payments for current receivables during Q3 2022 (Q3 2021: $5.2 million). Based on the consistent payments from TANESCO, the Company: (i) recognized all amounts invoiced for gas deliveries in Q3 2022 and Q3 2021 as revenue; and (ii) recognized $5.6 million during Q3 2022 (Q3 2021: $ nil) as a reversal of loss allowance relating to the amounts collected during the year that were applied towards the long-term TANESCO receivables previously allowed for.

The TANESCO long-term receivable as at September 30, 2022 was $20.9 million with a provision of $20.9 million compared to $26.5 million (with a provision of $26.5 million) as at December 31, 2021. Subsequent to September 30, 2022 the Company has invoiced TANESCO $4.8 million for October 2022 gas deliveries and TANESCO has paid the Company $2.2 million. In addition, subsequent to September 30, 2022 TANESCO paid the Company $8.4 million against the 2018 take or pay invoice.

Capital Expenditures

The capital expenditures in Q1 to Q3 2022 primarily related to the well workover program and 3D seismic acquisition program. The capital expenditures in Q1 to Q3 2021 primarily related to the installation of compression facilities and well workover planning and design.

	Three months ended September 30		Nine months ended September 30	
$'000	2022	2021	2022	2021
Pipelines and infrastructure	1,214	3,711	18,521	14,102
Other capital expenditures	8	4	270	12
	1,222	3,715	18,791	14,114

Capital Requirements

Except as described below, there are no contractual obligations for exploration or development drilling or other field development, either in the PSA or otherwise agreed, which require significant capital expenditure on the Songo Songo gas field. Any further capital expenditure in Tanzania is discretionary.

As at the date of this MD&A, the Company's only significant contractual commitment is in relation to the 3D seismic acquisition program which is intended to de-risk future development drilling and to evaluate the prospective resource potential for future exploration drilling. The Company is currently mobilising to carry out a 3D seismic acquisition program in Q4 2022, budgeted at $22.7 million including associated management, support and QA/QC costs estimated to be approximately $1.9 million. Following technical and commercial evaluation of proposals, the Company awarded a contract to African Geophysical Services LLP on July 7, 2022, to acquire approximately 181 square kilometers of 3D marine, transition and land based seismic over the Songo Songo license area. The Company has received all necessary government approvals and is targeting completion of the program in Q1 2023 to align with the optimum weather window and to seek to ensure the highest possible quality data acquisition.

The Company concluded the onshore well remediation program comprising three wells (SS-3, SS-4 and SS-10) in April 2022. The SS-3 well was shut-in in 2012 due to excessive corrosion and sustained annulus pressure. Having returned to production on February 15, 2022, the SS-3 well is now producing at rates up to 10 MMcfd. The SS-4 well was suspended in 2019 after it started producing sand. Following a sidetrack, a coiled tubing unit has been mobilized to lift liquids from the wellbore to return the SS-4 well to production. The SS-10 well was affected by progressive corrosion of its production tubing which would have ultimately threatened its safe operation and was worked over to replace the corroded tubing. The workover of the SS-10 well was completed on April 7, 2022, and the SS-10 well was returned to production on April 18, 2022. The total estimated gross cost for the workover program was $21.4 million. Following logistical delays, increased service company costs, and surface and downhole technical issues, the total cost of the program increased to $31.6 million. As of the date of this MD&A, $31.4 million has been paid and the remaining $0.2 million is forecasted to be paid by the end of Q4 2022.

Capital Expenditures cont.

Capital Requirements cont.

Low pressure compression was installed on the Songas processing plant and commissioned in March 2022, restoring the plant's gas production potential to maximum capacity. The initial price for the lump sum contract was $38.0 million. Variations due to increased sea freight costs, a requirement to increase on site power generation capacity, design changes and a brief scheduling delay to avoid an extended plant shut down resulted in the total lump sum contract cost increasing to $41.7 million. The inclusion of project management costs of $1.7 million incurred since the start of the project brings the total project cost of $43.4 million. $43.1 million had been paid at September 30, 2022 and the remaining $0.3 million was paid in Q4 2022.

The Company also successfully completed smart pigging of the SS-3, SS-4 SS-5, SS-7 and SS-9 flowlines, identifying a number of areas of corrosion or erosion in accordance with the Company's integrity management system. Low cost repairs of sections of flowlines have been conducted and wells returned to operations with minimal impact on overall production. The Company is planning a program of full flowline repairs on two flowlines in 2023.

In 2020, the Company undertook modelling to predict sand production from the Songo Songo gas field, with some wells predicted to produce sand as early as 2022. To mitigate this the Company installed downhole sand control in the SS-4 and SS-10 wells during their recent workovers. It also purchased and installed one fixed acoustic detector at the inlet manifold of the Songas gas plant, and one mobile acoustic detector which can be aligned to individual wells as necessary. The Company undertook a sand production testing program, individually aligning all wells, with the exception of the SS-12 well which is permanently aligned to the NNGI plant, and the SS-4 and SS-7 wells, which are currently not producing, to the test separator to assess each for sand production. All wells aligned and tested produced some sand over the course of their 10-day tests, ranging from trace levels to several kilograms. A cyclonic de-sanding unit has been installed at the SS-10 wellhead, with a second ready for installation on the next well, to be prioritised through further testing. The Company has also proposed the purchase of an additional five de-sanding units in 2023 to help mitigate the risk of sand production from the Songo Songo gas field.

Long-term Receivables

	As at	
$'000	September 30, 2022	December 31, 2021
VAT on Songas workovers	2,205	2,205
Lease deposit	10	10
	2,215	2,215

In 2017, based on agreement with TPDC, $12.3 million relating to the Songas share of workover costs of the SS-5 and SS-9 wells 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. Following implementation of measures to recover workover costs from Songas, Songas proposed a settlement agreement which was recently approved by the Company and the Government of Tanzania. The final details of the settlement are now being finalised between Songas and the Company.

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

	As at	
$'000	September 30, 2022	December 31, 2021
Total amounts invoiced to TANESCO	103,206	119,168
Trade receivable – TANESCO	–	(2,042)
Unrecognized amounts not meeting revenue recognition criteria[1]	(82,287)	(90,634)
Loss allowance	(20,919)	(26,492)
	–	–

1 The amount includes invoices for interest on late payments and invoices relating to differences between gas contracted for delivery versus gas taken by TANESCO. In May and June 2022 TANESCO paid the take or pay invoice of $13.4 million for the 2016-2017 contract year for gas to be taken by June 30, 2022 which the Company has extended by 12 months to June 30, 2023.

Management's Discussion & Analysis cont.

Long-term Loan

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

The Loan is to be paid out through six semi-annual payments of $5.0 million starting October 15, 2022, for which initial payment was paid by the Company subsequent to September 30, 2022, and one final payment of $25.2 million due on October 15, 2025. The Company may voluntarily prepay all or part of the Loan but must simultaneously pay any accrued base interest costs related to the principal amount being prepaid. The Loan is an unsecured subordinated obligation of PAET and was guaranteed by the Company to a maximum of $30.0 million. The guarantee may only be called upon by IFC at maturity in 2025 and, subject to IFC approval and receipt of all required regulatory approvals, the Company, at its discretion, may issue shares in fulfilment of all or part of its guarantee obligation in 2025. Pursuant to the sale of a non-controlling interest in PAEM, the parent company of PAET, the Company agreed with the IFC to reduce the outstanding amount of the Loan by the percentage interest sold of 7.9% ($4.8 million) before the fourth anniversary of the first drawdown. PAET made this payment on October 16, 2019.

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

Outstanding Shares

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

Pursuant to the substantial issuer bid of CDN$40.0 million completed in January 2021 ("2021 SIB") the Company purchased and cancelled 6,153,846 Class B Shares. Pursuant to the normal course issuer bid commenced on June 21, 2021 ("2021 NCIB"), the Company repurchased and cancelled 10,300 Class B shares at a weighted average price of CDN$5.30 per share in Q1 2022 and 19,700 Class B shares at a weighted average price of CDN$5.13 per share in Q2 2022. In total, pursuant to the 2021 NCIB, the Company repurchased and cancelled 60,900 Class B Shares at a weighted average price of CDN$5.18.

On July 11, 2022 the Company commenced a normal course issuer bid ("2022 NCIB") to purchase Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. As at September 30, 2022 and November 15, 2022, the Company had repurchased 22,000 Class B shares at a weighted average price of CDN$4.96 per share pursuant to the 2022 NCIB. 1,750,495 Class A Shares and 18,150,714 Class B Shares were outstanding as at September 30, 2022 and November 15, 2022, respectively. See "Substantial Issuer Bid, Normal Course Issuer Bid and Dividends" in this MD&A.

Cash Flow Summary

	Three months ended September 30		Nine months ended September 30	
$'000	2022	2021	2022	2021
Operating activities				
Net income	**12,040**	8,212	**27,266**	16,048
Non-cash adjustments	**9,013**	4,155	**27,324**	18,058
Interest expense	**2,366**	1,977	**6,207**	5,088
Changes in non-cash working capital[1]	**(3,875)**	(2,212)	**(8,575)**	(17,605)
Net cash flows from operating activities	**19,544**	12,132	**52,222**	21,589
Net cash used in investing activities	**(5,875)**	(836)	**(21,649)**	(11,356)
Net cash used in financing activities	**(2,962)**	(3,021)	**(10,554)**	(42,680)
Increase (decrease) in cash	**10,707**	8,275	**20,019**	(32,447)

1 See Consolidated Interim Statements of Cash Flows.

The Company's net cash flows from operating activities increased by 61% for Q3 2022 and by 142% for the nine months ended September 30, 2022 over the comparable prior year periods, primarily as a result of increased revenues. Increases in net cash used in investing activities for the three and nine months ended September 30, 2022 over the comparable prior year periods were mainly a result of the well workover program substantially completed and the 3D seismic acquisition program initiated in 2022. The decrease in net cash used in financing activities for nine months ended September 30, 2022 over the comparable prior period was primarily a result of the 2021 SIB of CDN$40.0 million.

Related Party Transactions

The Chair of the Company's Board of Directors is counsel to Burnet, Duckworth & Palmer LLP, a law firm that provides legal advice to the Company and its subsidiaries. Fees for services provided by this firm totalled $0.1 million during the quarter ended September 30, 2022 (Q3 2021: $0.1 million) and $0.4 million for the nine months ended September 30, 2022 (nine months ended September 30, 2021: $0.3 million). As at September 30, 2022, the Company had a total of $0.1 million (December 31, 2021: $0.1 million) recorded in trade and other payables in relation to related parties.

Substantial Issuer Bid, Normal Course Issuer Bid and Dividends

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

On June 21, 2021 the Company commenced the 2021 NCIB to purchase Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. Purchases pursuant to the 2021 NCIB were made by Research Capital Corporation ("Research Capital") on behalf of the Corporation and were not to exceed 500,000 Class B Shares, representing approximately 2.74% of the total outstanding Class B Shares. The 2021 NCIB was in effect until June 21, 2022. As of July 7, 2022, an aggregate of 60,900 Class B Shares were repurchased by the Company pursuant to the 2021 NCIB at an average price per Class B Share of CDN$5.18. Shareholders may obtain a copy of the notice regarding the 2021 NCIB filed with the TSXV from the Company without charge.

On July 5, 2022 the Company announced the 2022 NCIB to purchase Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. Purchases pursuant to the 2022 NCIB will be made by Research Capital on behalf of the Corporation and will not exceed 500,000 Class B Shares, representing approximately 2.75% of the total outstanding Class B Shares as of July 4, 2022. The 2022 NCIB will be in effect from July 11, 2022 until July 11, 2023 (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 2022 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 2022 NCIB will be cancelled. As at September 30, 2022 and November 15, 2022, the Company had repurchased 22,000 Class B shares at a weighted average price of CDN$4.96 per share pursuant to the 2022 NCIB. Shareholders may obtain a copy of the notice regarding the 2022 NCIB filed with the TSXV from the Company without charge.

All issued capital stock is fully paid.

Dividend Summary

Declaration date	Record date	Payment date	Amount per share (CDN$)
September 28, 2022	October 14, 2022	October 28, 2022	0.10
May 20, 2022	June 30, 2022	July 15, 2022	0.10
February 24, 2022	March 31, 2022	April 15, 2022	0.10
November 9, 2021	December 31, 2021	January 15, 2022	0.10
September 9, 2021	September 29, 2021	October 15, 2021	0.10
June 4, 2021	June 30, 2021	July 15, 2021	0.10
February 23, 2021	March 31, 2021	April 15, 2021	0.10

Consolidation

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

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

Management's Discussion & Analysis cont.

Non-Controlling Interest

The Company sold 7.9% (7,933 Class A common shares) of PAEM to a wholly owned subsidiary of Swala TZ in 2018 for $15.4 million cash and $4.0 million of Swala TZ's 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 TZ 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 TZ is obligated to comply by transferring and returning the Class A common shares of PAEM sold to Swala TZ. The aggregate value of these shares will equal the amount of the outstanding distributions. As at September 30, 2022, the Company has not received any distributions or recorded any amount receivable related to the Preference Shares. On August 8, 2022, the Company issued a redemption notice to Swala TZ, requesting that Swala TZ redeem 20% of the outstanding Preference Shares by August 23, 2022. Swala TZ has responded to the Company's redemption notice and is disputing its obligation to redeem the Swala TZ's convertible preference shares. As at September 30, 2022 and November 15, 2022, this matter remains in dispute between Swala TZ and the Company and the redemption notice request remains outstanding.

Swala TZ 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 TZ does not redeem the required number of Preference Shares for cash, Swala TZ is obligated to redeem the Preference Shares by transferring and returning the Class A common shares of PAEM sold to Swala TZ's wholly owned subsidiary. The aggregate value of these Class A common shares will equal the amount of any outstanding redemption. As of September 30, 2022, the Company recorded $0.7 million as a loss allowance with respect to the Preference Shares.

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

	As at	
$'000	September 30, 2022	December 31, 2021
Balance, beginning of period	3,116	1,523
Net income attributable to non-controlling interest	1,865	1,593
Balance, end of period	4,981	3,116

Contingencies

Taxation

					As at	
Amounts in $'millions					September 30, 2022	December 31, 2022
Area	Period	Reason for dispute	Principal	Interest	Total	Total
Pay-As-You-Earn ("PAYE") tax	2008-10	PAYE tax on grossed-up amounts in staff salaries which are contractually stated as net.	0.3	–	0.3	0.3
Withholding tax ("WHT")	2005-09	WHT on services performed outside of Tanzania by non-residents.	1.0	0.6	1.6	1.6
Income Tax	2008-09, 2011-17	Deductibility of capital expenditures and expenses (2012, 2015 and 2016), additional income tax (2008, 2011 and 2012), tax on repatriated income (2012 to 2016), foreign exchange rate application (2013 to 2015), underestimation of tax due (2014 and 2016) and methodology of grossing up of income taxes paid (2015 to 2017).	34.1	19.1	53.2	51.7
VAT	2012-18	VAT already paid (2012 to 2014), VAT on imported services (2015 and 2016), interest on VAT decreasing adjustments and input VAT on services (2017 and 2018).	0.2	1.3	1.5	1.4
			35.6	21.0	56.6	55.0

Contingencies cont.

Taxation cont.

During 2021 the Company paid the TRA $1.8 million as a deposit against the disputed taxes including PAYE tax, WHT, income tax and VAT for the years 2012-16, an amount agreed upon in order for TRA to admit the outstanding tax objections. In 2021, the Court of Appeal of Tanzania ("CAT") delivered its judgment on an appeal instituted by the Company on the appealability of a one-third deposit required to admit objections for the 2012 year of income. The CAT decided that the matters are not tax decisions and are therefore not appealable. Aggrieved by the decision, the Company filed a notice of motion for review of the decision at the same court. In Q3 2022, the CAT agreed with the Company and the matter has now been resolved and withdrawn from the CAT.

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

During Q1 2022, following the expiry of the statutory deadline for the TRA to respond to the Company's objections, the Company filed notices of intention to appeal to the Tanzania Revenue Appeals Board ("TRAB") against the corporate income tax assessments for the years of 2012-16, tax on repatriated income for the years of 2012-14, and VAT for the years of 2015-16. In Q2 2022, corporate income tax and tax on repatriated income matters came for hearing and, at the request from the TRA, the TRAB granted an order that these matters be withdrawn to allow the TRA to further review and issue determination letters. During Q3 2022, the TRA issued proposals for settlement of these objections and the Company submitted a response to the TRA. The matters are expected to appear for status review in November 2022. The 2015-16 VAT case came for hearing at TRAB on October 19, 2022. Parties are now required to file their written final submissions by November 14, 2022.

In Q3 2022, TRA and the Company agreed to settle outstanding WHT disputes for the years of income of 2010 and 2015-16. The Company agreed to pay the principal amount of $0.7 million of the assessments foregoing the interest component of $0.5 million. Pursuant to the legal procedures, deeds of settlement signed by both parties were accepted by the TRAB and the Tax Revenue Appeals Tribunal ("TRAT"), the payment was made by the Company to the TRA, and such matters are now formally closed.

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

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

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

Management's Discussion & Analysis cont.

Quarterly Results Summary

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

	2022			2021				2020
Figures in $'000 except where otherwise stated	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	30,537	28,223	27,452	24,819	22,271	20,301	18,631	21,980
Net income attributable to shareholders	11,443	6,567	7,391	1,548	7,613	3,246	3,963	7,375
Earnings per share								
– basic and diluted ($)	0.57	0.33	0.37	0.08	0.38	0.16	0.19	0.28
Net cash flows from (used in) operating activities	19,544	28,601	4,077	18,521	12,132	10,251	(794)	19,369
Capital expenditures	1,222	3,306	14,263	12,496	3,715	10,167	232	16,315

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

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

- 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;
- the decrease in Q4 2021 was a result of higher general and administrative expenses and higher loss allowance for receivables compared to Q3 2021;
- the increase in Q1 2022 was a result of recording loss allowance for receivables in Q4 2021;
- the decrease in Q2 2022 was a result of increased current tax primarily as an outcome of increased revenue;
- the increase in Q3 2022 was a result of a collection of TANESCO arrears.

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 2021 and consequent increases in Q2, Q3 and Q4 2021 were mainly a result of the annual 2020 current liability associated with APT paid in Q1 2021. The decrease in Q1 2022 was primarily a result of the payment of the annual 2021 current APT liability. Correspondingly, the increase in Q2 2022 was a result of the payment of the current APT liability in the previous quarter and changes in non-cash working capital. The decrease in Q3 2022 was primarily a result of the changes in non-cash working capital, namely the decrease in accounts payable related to deferred income on take or pay contracts.

Capital expenditures in Q4 2020 mainly relate to the installation of compression. Capital expenditures in Q1 2021 were mainly related to well workover planning and design. Capital expenditures in Q2 2021 mainly relate to the installation of compression. Capital expenditures in Q3 and Q4 2021 and Q1 and Q2 2022 were mainly related to the well workover program. Capital expenditures in Q3 2022 were mainly related to the well workover program and the 3D seismic acquisition program.

Non-GAAP Financial Measures and Ratios

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

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

Capital expenditures

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

	Three Months ended September 30		Nine Months ended September 30	
$'000	2022	2021	2022	2021
Pipelines, well workovers and infrastructure	1,214	3,711	18,521	14,102
Other capital expenditures	8	4	270	12
Capital expenditures	1,222	3,715	18,791	14,114
Right of use	51	–	51	–
Change in non-cash working capital	4,602	(2,879)	2,807	(2,758)
Net cash used by investing activities	5,875	836	21,649	11,356

Operating netback

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

	Three Months ended September 30		Nine Months ended September 30	
$'000	2022	2021	2022	2021
Revenue	30,537	22,271	86,212	61,203
Production, distribution and transportation expenses	(4,835)	(3,162)	(13,212)	(8,997)
Net Production Revenue	25,702	19,109	73,000	52,206
Less current income tax adjustment (recorded in revenue)	(5,334)	(2,811)	(11,322)	(6,969)
Operating netback	20,368	16,298	61,678	45,237
Sales volumes MMcf	8,478	5,931	22,891	15,773
Netback $/mcf	2.41	2.75	2.69	2.87

Non-GAAP Ratios

Operating netback per mcf

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

Supplementary Financial Measures

Working capital

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

Net cash flows from operating activities per share

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

Weighted average Class A and Class B Shares

In calculating the weighted average number of shares outstanding during any period the Company takes the opening balance multiplied by the number of days until the balance changes. It then takes the new balance and multiplies that by the number of days until the next change, or until the period end. The resulting multiples of shares and days are then aggregated and the total is divided by the total number of days in the period.

Use of Estimates and Judgments

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

Business Risks

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

Country Risk

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

Forward Looking Statements

This MD&A contains forward-looking statements or information (collectively, "forward-looking statements") within the meaning of applicable securities legislation. All statements, other than statements of historical fact included in this MD&A, which address activities, events or developments that Orca expects or anticipates to occur in the future, are forward-looking statements. Forward-looking statements often contain terms such as may, will, should, anticipate, expect, continue, estimate, believe, project, forecast, plan, intend, target, outlook, focus, could and similar words suggesting future outcomes or statements regarding an outlook. More particularly, this MD&A contains, without limitation, forward-looking statements pertaining to the following: the Company's average gross sale volume forecasts; the ability for short term production through the Songas Infrastructure to be sustained as a result of the installation of feed gas compression; the ability for the SS-4 well to flow naturally following the utilisation of a coiled tubing unit to potentially unload liquids from the wellbore; the ability to increase current production following unloading of excess liquid on the SS-4 well; anticipated production volumes and increased well deliverability as a result of the installation of compression on the Songas Infrastructure and the completion of the well workover program; the Company's expectations regarding timing and cost for the completion of the 3D seismic acquisition program; the availability of suitable weather windows to conduct the 3D seismic acquisition program; the timing and cost associated with the full flowline repairs required on two wells; the timing and results of the test separator's assessment of sand production on the applicable wells; whether the Company will acquire additional de-sanding units in 2023; the timing of payment for the remaining balance owing in connection with the well workover program; the Company's expectations regarding supply and demand of natural gas; 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 Orca's license; the requirement to further develop the Songo Songo gas field to sustain production to the end of Orca's license; current and potential production capacity of the Songo Songo gas field; the possibility that increased production rates will result in additional reserves being upgraded from contingent resources; the receipt of the payment of arrears from TANESCO; the Company's expectation that there will continue to be no restrictions on the movement of cash from Jersey, Mauritius or Tanzania; the Company's expectations that it will be able to convert Tanzanian schillings into US dollars; the Company's expectation that it will not incur any losses from debtors; the Company's expectation that it will have sufficient cash flow from operating activities to maintain adequate working capital to cover the Company's long term and short term obligations; all planned capital expenditures can be funded from cash flow generated by current operations; the Company's expectations that no circumstances will significantly impact the Company's cash flows or liquidity; the timing and effective rate of the APT payable by the Company; the Company's ability to produce additional volumes; the potential impact on the Company resulting from the further spread of COVID-19; the Company's expectations regarding changes to its tax liabilities and the results of its operations as a result of amendments made to the ITA, 2004, the WLMAA, 2017 and the implementation of further legislation; the Company's obligation to make future deposits to object the TRA's assessments; and expectations in respect of the timing and results of its appeals on, and responses to, the decisions of the TRA and TRAB and other statements under "Contingencies – Taxation" in this MD&A; 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

Forward Looking Statements cont.

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: the Company's average gross gas sale volumes are lower than forecasted; failure to receive payments from TANESCO; risks related to the implementation of potential financing solutions to resolve the TANESCO arrears; 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; negotiations with potential industrial customers for additional gas contracts are not successful; negative effect on the Company's rights under the PSA and other agreements relating to its business in Tanzania as a result of recently enacted legislation, as well as the risk that such legislation will create additional costs and time connected with the Company's business in Tanzania; risks regarding the uncertainty around evolution of Tanzanian legislation; risk that the Company will not be successful in appealing claims or decisions made by the TRA or TRAB and may be required to pay additional taxes and penalties; the impact of general economic conditions in the areas in which the Company operates; civil unrest; the susceptibility of the areas in which the Company operates to outbreaks of disease; industry conditions; changes in laws and regulations including the adoption of new environmental laws and regulations, impact of local content regulations and variances in how they are interpreted and enforced; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices, foreign exchange or interest rates; the lack of availability of US dollars; the Company may not be able to convert Tanzanian schillings into US dollars as and when required; stock market volatility; competition for, among other things, capital, oil and gas field services and skilled personnel; failure to obtain required equipment for field development; delays in development plans; failure to obtain expected results from the drilling or workover of wells; effect of changes to the PSA on the Company as a result of the implementation of new government policies for the oil and gas industry; changes in laws; imprecision in reserve estimates; the production and growth potential of the Company's assets; obtaining required approvals of regulatory authorities; failure to recommence production from SS-4 following the utilisation of a coiled tubing unit to potentially unload liquids from the wellbore, failure to complete the 3D seismic acquisition program on the timeline or at the cost anticipated; not having an appropriate weather window in which to conduct the 3D seismic program; risks associated with negotiating with foreign governments; inability to satisfy debt conditions of financing; failure to successfully negotiate agreements; risk that the Company will not be able to fulfil its contractual obligations; risk that trade and other receivables may not be paid by the Company's customers, when due; 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; and such additional risks listed under "Business Risks" in the Company's MD&A for the year ended December 31, 2021. In addition, there are risks and uncertainties associated with oil and gas operations, therefore the Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by these forward-looking statements will transpire or occur, or if any of them do so, what benefits the Company will derive therefrom. Readers are cautioned that the foregoing list of factors is not exhaustive.

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

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

Management's Discussion & Analysis cont.

Oil and Gas Advisory

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

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

"BOEs" may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent (6Mcf: 1 Bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value. For certainty, all referenced herein to "production", "gross daily sales", "gas sales" and "Additional Gas sales" are references to conventional natural gas production, conventional natural gas daily sales, conventional natural gas sales and conventional natural gas sales, which are classified as Additional Gas in accordance with the PSA, respectively.

Additional Information

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

Glossary

mcf	Thousand standard cubic feet	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 2022 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, 2022.

Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited)

		Three Months ended September 30		Nine Months ended September 30	
$'000	Note	2022	2021	2022	2021
Revenue	6, 7	30,537	22,271	86,212	61,203
Production, distribution and transportation		4,835	3,162	13,212	8,997
Net production revenue		25,702	19,109	73,000	52,206
Operating expenses					
General and administrative		3,382	2,419	9,728	8,674
Stock based compensation recovery	14	(74)	(56)	(119)	(477)
Depletion	10	7,144	4,186	19,288	11,133
Reversal of loss allowance for receivables	9	(5,378)	(1,944)	(7,427)	(3,762)
Finance income	8	(187)	(34)	(313)	(108)
Finance expense	8	2,766	1,150	7,292	7,056
Income before tax		18,049	13,388	44,551	29,690
Income tax expense – current		4,337	2,514	9,736	6,456
Income tax (recovery) expense – deferred		(769)	1,216	2,206	3,791
Additional Profits Tax		2,441	1,446	5,343	3,395
Net income		12,040	8,212	27,266	16,048
Net income attributable to non-controlling interest	20	597	599	1,865	1,226
Net income attributable to shareholders		11,443	7,613	25,401	14,822
Foreign currency translation loss from foreign operations		(66)	(23)	(148)	(9)
Comprehensive income		11,377	7,590	25,253	14,813
Net income attributable to shareholders per share ($)					
Basic and diluted	15	0.57	0.38	1.27	0.73

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Financial Position (Unaudited)

$'000	Note	As at September 30, 2022	As at December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents		93,118	72,985
Trade and other receivables	9	35,621	30,731
Prepayments		476	1,133
		129,215	104,849
Non-current assets			
Long-term receivables	12	2,215	2,215
Investments	20	3,240	3,240
Capital assets	10	119,261	119,967
		124,716	125,422
Total assets		253,931	230,271
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	11	44,501	46,776
Tax payable		7,329	2,836
Current portion of long-term loan	13	10,000	5,000
Current portion of Additional Profits Tax		9,819	8,461
		71,649	63,073
Non-current liabilities			
Deferred income taxes		27,253	25,043
Lease liabilities	10	43	176
Long-term loan	13	44,815	49,603
Additional Profits Tax		16,404	20,922
		88,515	95,744
Total liabilities		160,164	158,817
SHAREHOLDERS' EQUITY			
Capital stock	14	47,322	47,454
Accumulated other comprehensive loss		(325)	(177)
Accumulated income		41,789	21,061
Non-controlling interest	20	4,981	3,116
		93,767	71,454
Total equity and liabilities		253,931	230,271

See accompanying notes to the condensed consolidated interim financial statements.

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

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

		Three months ended September 30		Nine months ended September 30	
$'000	Note	2022	2021	2022	2021
OPERATING ACTIVITIES					
Net income		12,040	8,212	27,266	16,048
Adjustment for:					
Depletion and depreciation	10	7,236	4,267	19,548	11,382
Indirect tax expense (recovery)	8	307	(874)	772	1,614
Stock based compensation recovery	14	(74)	(56)	(119)	(477)
Deferred income taxes (recovery) expense		(765)	1,216	2,210	3,791
Additional Profits Tax		2,441	1,446	5,343	3,395
Reversal of loss allowance for receivables	9	–	(1,944)	–	(1,944)
Unrealized (gain) loss on foreign exchange		(132)	100	(430)	297
Interest expense	8	2,366	1,977	6,207	5,088
Change in non-cash working capital	19	(3,875)	(2,212)	(8,575)	(17,605)
Net cash flows from operating activities		19,544	12,132	52,222	21,589
INVESTING ACTIVITIES					
Capital expenditures	10	(5,875)	(836)	(21,649)	(11,356)
Net cash (used in) from investing activities		(5,875)	(836)	(21,649)	(11,356)
FINANCING ACTIVITIES					
Lease payments		–	(22)	(159)	(181)
Substantial issuer bid	14	–	(14)	–	(31,886)
Normal course issuer bid	14	(76)	–	(207)	–
Interest paid	8	(1,335)	(1,396)	(5,462)	(5,786)
Dividends paid to shareholders	14	(1,551)	(1,589)	(4,726)	(4,827)
Net cash used in financing activities		(2,962)	(3,021)	(10,554)	(42,680)
Increase (decrease) in cash		10,707	8,275	20,019	(32,447)
Cash and cash equivalents at the beginning of the period		82,445	63,269	72,985	104,190
Effect of change in foreign exchange on cash for the period		(34)	(111)	114	(310)
Cash and cash equivalents at the end of the period		93,118	71,433	93,118	71,433

See accompanying notes to the condensed consolidated interim financial statements.

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

$'000	Capital stock	Contributed surplus	Accumulated other comprehensive loss	Accumulated income	Non-controlling interest	Total
Note	**14**			**14**	**20**	
Balance as at December 31, 2021	47,454	–	(177)	21,061	3,116	71,454
Share repurchase	(132)	–	–	(75)	–	(207)
Dividends declared	–	–	–	(4,598)	–	(4,598)
Foreign currency translation adjustment on foreign operations	–	–	(148)	–	–	(148)
Net income	–	–	–	25,401	1,865	27,266
Balance as at September 30, 2022	**47,322**	**–**	**(325)**	**41,789**	**4,981**	**93,767**

$'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

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 PO Box 146, Road Town, Tortola, British Virgin Islands, VG110. The Company produces and sells natural gas to the power and industrial sectors in Tanzania.

The condensed consolidated interim financial statements of the Company as at September 30, 2022 and for the three and nine months ended September 30, 2022 comprise the accounts of the Company and its subsidiaries (collectively, the "Company" or "Orca Energy") and were authorized for issue in accordance with a resolution of the directors on November 15, 2022. The Company is controlled by Shaymar Limited who is the registered holder of 24.7% of the equity and controls 71.5% of the total votes of the Company. The shares are held in a trust that is independently managed for the beneficiaries.

1. Nature of Operations

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

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

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

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

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

2. Basis of Preparation

Statement of Compliance

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

Basis of Measurement

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

COVID-19

There has been no significant change in the Company's business during Q1, Q2 and Q3 2022 as a result of the coronavirus pandemic ("COVID-19"). Tanzanian government restrictions and vaccination program appear to have largely controlled the spread of COVID-19. Given the steps already taken by the Company, no significant impact on our operations or business results has occurred a result of COVID-19. However, COVID-19 has been a contributing factor in a reduction of foreign currency flowing into the country and the risk remains that in the future the Company may not be able to convert Tanzanian shillings to United States dollars as and when required.

Climate change regulations

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

3. Summary of Significant Accounting Policies

The Company's accounting policies are set forth in Note 3 to the audited consolidated financial statements for the year ended December 31, 2021. There have been no changes in accounting policies for the nine month period ended September 30, 2022 and the policies have been applied consistently to all periods presented in the condensed consolidated interim financial statements.

4. Use of Estimates and Judgments

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

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

5. Risk Management

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

A. Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from TANESCO, Songas and TPDC. The carrying amount of accounts receivable and the long-term receivable represents the maximum credit exposure. As at September 30, 2022 and December 31, 2021, provisions exist against all of the long-term TANESCO receivable, with additional provisions for gas plant operations and a receivable of $0.5 million from one industrial customer. No write-off of any receivables occurred in 2022 (see Note 9).

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

B. Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its liabilities. Cash forecasts identifying liquidity requirements of the Company are produced on a regular basis. These are reviewed to ensure sufficient funds exist to finance the Company's current operational and investment cash flow requirements. At September 30, 2022 the Company has working capital of $57.6 million which is net of $71.6 million of financial liabilities with regards to trade and other payables of which $27.3 million is due within one to three months, $14.8 million is due within three to six months, and $29.5 million is due within six to twelve months (see Note 11).

As at September 30, 2022 approximately 34% of the current liabilities relate to TPDC (see Note 11). The amounts due to TPDC represent its share of Profit Gas. In accordance with the terms of the PSA, TPDC is entitled to the payment of its share of Profit Gas on a quarterly basis proportional to the cash receipts during the quarter. A substantial proportion of the TPDC liability is associated with the long-term TANESCO arrears and payments to TPDC are made when cash is received for the arrears.

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

6. Segment Information

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

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

7. Revenue

	Three months ended September 30		Nine months ended September 30	
$/000	2022	2021	2022	2021
Industrial sector	10,381	9,098	32,081	27,713
Power sector	26,300	17,295	68,729	42,796
Gross field revenue	36,681	26,393	100,810	70,509
TPDC share of revenue	(11,478)	(6,933)	(25,920)	(16,275)
Company operating revenue	25,203	19,460	74,890	54,234
Current income tax adjustment	5,334	2,811	11,322	6,969
	30,537	22,271	86,212	61,203

The Company recognized 100% of amounts invoiced for deliveries to TANESCO as revenue during the first nine months of 2021 and 2022. During Q3 2022 the Company invoiced TANESCO $17.2 million for gas deliveries (Q3 2021: $7.5 million) and received $16.9 million in payments for current receivables during Q3 2022 (Q3 2021: $5.2 million). Based on the consistent payments from TANESCO, the Company: (i) recognized all amounts invoiced for gas deliveries in Q3 2022 and Q3 2021 as revenue; and (ii) recognized $5.6 during Q3 2022 (Q3 2021: $ nil) as a reversal of loss allowance relating to the amounts collected during the year that were applied towards the long-term TANESCO receivables previously allowed for (see Note 9). Subsequent to September 30, 2022 the Company has invoiced TANESCO $4.8 million for October 2022 gas deliveries and TANESCO has paid the Company $2.2 million. In addition, subsequent to September 30, 2022 TANESCO paid the Company $8.4 million against the 2018 take or pay invoice.

In Q2 2022 the Company invoiced TANESCO $ nil (Q2 2021: $13.7 million) under the take or pay provision within the PGSA for the 2021-2022 contract year. In Q3 2021 the Company issued a credit note for $7.1 million against the take or pay invoice for the 2020-2021 contract year. Neither the invoice nor the credit note have been recognized as they do not meet revenue recognition criteria with respect to assurance of collectability.

8. Finance Income and Expense

Finance Income

	Three months ended September 30		Nine months ended September 30	
$'000	2022	2021	2022	2021
Interest income	187	34	313	108
	187	34	313	108

Finance Expense

	Three months ended September 30		Nine months ended September 30	
$'000	2022	2021	2022	2021
Base interest expense	1,482	1,526	4,402	4,506
Participation interest expense	878	441	1,786	548
Lease interest expense	6	10	19	34
Interest expense	2,366	1,977	6,207	5,088
Net foreign exchange loss	93	47	313	354
Indirect tax expense (recovery)	307	(874)	772	1,614
	2,766	1,150	7,292	7,056

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

The indirect tax is for value added tax ("VAT") associated with invoices to TANESCO under the take or pay provisions within the PGSA and for interest on late payments.

9. Current Trade and Other Receivables

$'000	As at September 30, 2022	As at December 31, 2021
Trade receivables		
Songas	2,106	2,502
TPDC	8,150	5,603
TANESCO	–	2,042
Industrial customers	9,964	11,840
Loss allowance	(452)	(452)
	19,768	21,535
Other receivables		
Songas gas plant operations	4,087	2,827
Songas well workover program	7,825	3,447
Other	4,666	3,647
Loss allowance	(725)	(725)
	15,853	9,196
	35,621	30,731

Songas

As at September 30, 2022 Songas owed the Company $14.0 million (December 31, 2021: $8.8 million), while the Company owed Songas $3.0 million (December 31, 2021: $1.9 million). The amounts due to the Company are mainly for sales of gas of $2.1 million (December 31, 2021: $2.5 million), the well workover program of $7.8 million (December 31, 2021; $3.5 million) and for the operation of the gas plant of $4.1 million (December 31, 2021: $2.8 million) against which the Company has made a loss allowance of $0.7 million (December 31, 2021: $0.7 million). The amounts due to Songas primarily relate to pipeline tariff charges of $2.6 million (December 31, 2021: $1.5 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis.

TPDC

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

Reversal of loss allowance for receivables

	Three months ended September 30		Nine months ended September 30	
$'000	2022	2021	2022	2021
Reversal of loss allowance	(5,573)	(1,944)	(7,622)	(3,762)
Loss allowance	195	–	195	–
	(5,378)	(1,944)	(7,427)	(3,762)

In Q3 2022, the reversal of loss allowance follows collection of TANESCO arrears of $5.6 million (Q3 2021: $ nil) which had been previously allowed for and represents the excess of receipts over gas sales invoiced during the year. In Q3 2021 the reversal of loss allowance follows collection of Songas operatorship arrears of $1.9 million which had been previously allowed for.

The reversal of loss allowance of $7.6 million for the nine months ended September 30, 2022 (nine months ended September 30, 2021: $3.7 million) also includes indirect taxation of $2.0 million related to the TANESCO 2017 take or pay invoice which was paid in Q2 2022 and had not previously been recognized (nine months ended September 30, 2021: $0.8 million related to TANESCO 2016 take or pay invoice). Additionally, the reversal of loss allowance for the nine months ended September 30, 2021 includes collection of TANESCO arrears of $1.1 million which had been previously allowed for.

The loss allowance of $0.2 million represents the net amount of: (i) $0.5 million previously allowed for in Q4 2021 with respect to the dispute with the Tanzanian Revenue Authority ("TRA") on the issue of withholding tax on services performed outside Tanzania by non-resident persons in 2010 and 2015-16; and (ii) $0.7 million representing the settlement amount with respect to the above withholding tax dispute. In Q3 2022 the Company, with advice from its legal counsel, agreed to settle the dispute and made the payment to TRA on August 24, 2022.

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

10. Capital Assets

$'000	Natural gas interests	Office and other	Right-of-use	Total
Costs				
As at December 31, 2021	267,876	2,908	1,084	271,868
Additions	18,521	270	51	18,842
As at September 30, 2022	**286,397**	**3,178**	**1,135**	**290,710**
Accumulated depletion and depreciation				
As at December 31, 2021	148,367	2,901	633	151,901
Additions	19,288	45	215	19,548
As at September 30, 2022	**167,655**	**2,946**	**848**	**171,449**
Net book values				
As at September 30, 2022	**118,742**	**232**	**287**	**119,261**

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, 2022 the estimated future development costs required to bring the total proved reserves to production were $8.3 million (December 31, 2021 $26.8 million). During the nine months ended September 30, 2022 the Company recorded depreciation of $0.3 million (nine months ended September 30, 2021: $0.2 million) in general and administrative expenses.

Right-of-use assets

$'000	
As at December 31, 2021	451
Additions	51
Depreciation	(215)
As at September 30, 2022	**287**

Lease liabilities

$'000	
As at December 31, 2021	408
Additions	51
Lease interest expense	19
Lease payments	(159)
As at September 30, 2022	**319**

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

11. Trade and Other Payables

$'000	As at September 30, 2022	As at December 31, 2021
Songas	3,002	1,899
Other trade payables	6,623	3,179
Trade payables	9,625	5,078
TPDC Profit Gas entitlement, net	24,272	21,911
Deferred income – take or pay contracts[1]	3,852	5,215
Accrued liabilities	6,752	14,572
	44,501	46,776

1 In May and June 2022 TANESCO paid the take or pay invoice of $13.4 million for the 2016-2017 contract year for gas to be taken by June 30, 2022; this period was extended by the Company to June 30, 2023. 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; this period was extended by the Company to June 30, 2022.

TPDC share of Profit Gas

$'000	As at September 30, 2022	As at December 31, 2021
TPDC share of Profit Gas	35,727	27,994
Less "Adjustment Factor"	(11,455)	(6,083)
TPDC Profit Gas entitlement, net	24,272	21,911

Under the PSA revenue sharing mechanism, the Company adjusts TPDC's Profit Gas share by the "Adjustment Factor". The Adjustment Factor is equal to the amount necessary to fully pay and discharge the PAET liability for taxes on income derived from petroleum operations. A significant percentage of the settlement of the $24.3 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, 2022	As at December 31, 2021
Amounts invoiced to TANESCO	103,206	119,168
Trade receivables – TANESCO	–	(2,042)
Unrecognized amounts not meeting revenue recognition criteria[1]	(82,287)	(90,634)
Loss allowance	(20,919)	(26,492)
Net TANESCO receivable	–	–
VAT – Songas workovers	2,205	2,205
Lease deposit	10	10
	2,215	2,215

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

The Company recognized 100% of amounts invoiced for deliveries to TANESCO as revenue during 2021 and in the nine months ended September 30, 2022. During the nine months ended September 30, 2022 the amounts received from TANESCO were in excess of the revenue recognized for gas sales to TANESCO and $5.6 million of cumulative excess cash receipts over sales invoiced were recorded (nine months ended September 30, 2021: $1.1 million), reducing the long-term arrears and allowing the reversal of the associated loss allowances.

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

13. Long-term Loan

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

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

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

	As at	
$'000	September 30, 2022	December 31, 2021
Loan principal	55,240	55,240
Financing costs	(425)	(637)
Current portion of long-term loan	(10,000)	(5,000)
	44,815	49,603

14. Capital Stock

Authorised

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

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

Changes in the Capital Stock

	As at					
	September 30, 2022			December 31, 2021		
Number of shares	Authorised (000)	Issued (000)	Amount ($'000)	Authorised (000)	Issued (000)	Amount ($'000)
Class A Shares	50,000	1,750	983	50,000	1,750	983
Class B Shares	100,000	18,151	46,339	100,000	18,203	46,471
First preference shares	100,000	–	–	100,000	–	–
	250,000	19,901	47,322	250,000	19,953	47,454

On June 21, 2021 the Company commenced a normal course issuer bid ("2021 NCIB") to purchase Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. The Company repurchased and cancelled 10,300 Class B shares at a weighted average price of CDN$5.30 per share in Q1 2022 and 19,700 Class B shares at a weighted average price of CDN$5.13 per share in Q2 2022 under the 2021 NCIB.

On July 11, 2022 the Company commenced a normal course issuer bid ("2022 NCIB") to purchase Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. As at September 30, 2022 the Company had repurchased 22,000 Class B shares at a weighted average price of CDN$4.96 per share pursuant to the 2022 NCIB. All issued capital stock is fully paid.

14. Capital Stock cont.

Changes in Stock Appreciation Rights ("SARs")

$'000	SARs (000)	Exercise price (CDN$)
Outstanding as at December 31, 2021	746	3.87 to 6.65
Exercised	(376)	3.87 to 5.32
Outstanding as at September 30, 2022	**370**	**5.00 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, 2022 were as follows:

Exercise price (CDN$)	Number outstanding (000)	Weighted average remaining contractual life (years)	Number exercisable (000)	Weighted average exercise price (CDN$)
5.00 to 6.65	370	0.29	356	5.30
5.00 to 6.65	**370**	**0.29**	**356**	**5.30**

Changes in Restrictive Stock Units ("RSUs")

$'000	RSUs (000)	Exercise price (CDN$)
Outstanding as at December 31, 2021	76	0.01
Exercised	(40)	0.01
Outstanding as at September 30, 2022	**36**	**0.01**

The number outstanding, the number exercisable and the weighted average remaining life of RSUs at September 30, 2022 were as follows:

Exercise price (CDN$)	Number outstanding (000)	Number exercisable (000)	Weighted average remaining contractual life (years)
0.01	**36**	**33**	**0.33**

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 at September 30, 2022, the following assumptions have been made: a risk free rate of interest of 1.0% (December 31, 2021: 1.0%), stock volatility of 14.1% to 25.7% (December 31, 2021: 26.6% to 37.8%), 5% forfeiture (December 31, 2021: 5%) and a closing stock price of CDN$4.80 (December 31, 2021: CDN$5.40) per Class B share. The valuation of the SARs and RSUs awards is increased to reflect the amount of dividends paid between the award date to the time of exercise.

	As at	
$'000	September 30, 2022	December 31, 2021
SARs	**279**	727
RSUs	**185**	326
	464	1,053

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

14. Capital Stock cont.

Dividend Summary

Declaration date	Record date	Payment date	Amount per share (CDN$)
September 28, 2022	October 14, 2022	October 28, 2022	0.10
May 20, 2022	June 30, 2022	July 15, 2022	0.10
February 24, 2022	March 31, 2022	April 15, 2022	0.10
November 9, 2021	December 31, 2021	January 15, 2022	0.10
September 9, 2021	September 29, 2021	October 15, 2021	0.10
June 4, 2021	June 30, 2021	July 15, 2021	0.10
February 23, 2021	March 31, 2021	April 15, 2021	0.10

15. Earnings Per Share

	Three months ended September 30		Nine months ended September 30	
(000)	2022	2021	2022	2021
Outstanding shares				
Weighted average number of Class A and Class B Shares, basic	19,918	19,984	19,933	20,435
Weighted average number of Class A and Class B Shares, diluted	19,918	19,984	19,933	20,435

The calculation of earnings per share is based on a net income attributable to shareholders for the quarter of $11.4 million (Q3 2021: $7.6 million) and a weighted average number of Class A and Class B shares outstanding during the quarter ended September 30, 2022 of 19,917,732 (Q3 2021: 19,983,631). The calculation of earnings per share for the nine months ended September 30, 2022 is based on a net income of $25.4 million (nine months ended September 30, 2021: $14.8 million) and a weighted average number of Class A and Class B shares outstanding for the nine months ended September 30, 2022 of 19,933,139 (nine months ended September 30, 2021: 20,434,779).

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, 2022 (Q3 2021: $0.1 million) and $0.4 million for the nine months ended September 30, 2022 (nine months ended September 30, 2021: $0.3 million).

As at September 30, 2022 the Company had a total of $0.1 million (December 31, 2021: $0.1 million) recorded in trade and other payables in relation to related parties.

17. Contractual Obligations and Committed Capital Investments

Protected Gas

Under the terms of the Gas Agreement for the Songo Songo project ("Gas Agreement"), in the event that there is a shortfall/insufficiency in Protected Gas as a consequence of the sale of Additional Gas, the Company is liable to pay the difference between the price of Protected Gas ($0.55/MMbtu escalated) and the price of an alternative feedstock multiplied by the volumes of Protected Gas up to a maximum of the volume of Additional Gas sold which was 280 Bcf as at September 30, 2022 (December 31, 2021: 257 Bcf). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the term of the Protected Gas delivery obligation to July 2024.

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

Capital Commitments

Tanzania

At the date of this report, the Company's only significant outstanding contractual commitment is in relation to the 3D seismic acquisition program. The Company intends to carry out a 3D seismic acquisition program in Q4 2022, budgeted at $22.7 million including associated management, support and QA/QC costs, estimated to be approximately $1.9 million. As of September 30, 2022, $1.6 million of the seismic contracts has been paid, the remaining capital expenditures of $21.1 million is forecasted to be paid by Q2 2023.

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 with $25.4 million remaining in dispute. Under the dispute mechanism outlined in the PSA, parties are to agree the appointment of an independent specialist to assist the parties in reaching agreement on costs that are still subject to dispute. In 2014, prior to appointing an independent specialist, TPDC suspended the process. From 2010 to 2015 TPDC rejected a further $16.8 million of costs. In 2016 the Tanzanian Petroleum Upstream Regulatory Authority ("PURA") assumed the role of auditing the PSA cost pool from TPDC and for 2016 to 2020 have rejected all costs pertaining to downstream development amounting to $15.0 million and a further $9.5 million of other costs. In 2022 the Company and PURA negotiated a settlement on certain rejections with respect to 2016 to 2018 audits. As a result of this, $2.7 million were credited to the Cost Pool in Q2 2022. To date there remains a total of $64.0 million of costs that have been queried or rejected by TPDC or PURA through the cost pool audit process.

Tax

Amounts in $' millions					As at September 30, 2022	As at December 31, 2021
Area	Period	Reason for dispute	Principal	Interest	Total	Total
Pay-As-You-Earn ("PAYE") tax	2008-10	PAYE tax on grossed-up amounts in staff salaries which are contractually stated as net.	0.3	–	0.3	0.3
Withholding tax ("WHT")	2005-09	WHT on services performed outside of Tanzania by non-residents.	1.0	0.6	1.6	1.6
Income Tax	2008-09, 2011-17	Deductibility of capital expenditures and expenses (2012, 2015 and 2016), additional income tax (2008, 2011 and 2012), tax on repatriated income (2012 to 2016), foreign exchange rate application (2013 to 2015), underestimation of tax due (2014 and 2016) and methodology of grossing up of income taxes paid (2015 to 2017).	34.1	19.1	53.2	51.7
VAT	2012-18	VAT already paid (2012 to 2014), VAT on imported services (2015 and 2016), interest on VAT decreasing adjustments and input VAT on services (2017 and 2018).	0.2	1.3	1.5	1.4
			35.6	21.0	56.6	55.0

During 2021 the Company paid the TRA $1.8 million as a deposit against the disputed taxes including PAYE tax, WHT, income tax and VAT for the years 2012-16, an amount agreed upon in order for TRA to admit the outstanding tax objections. In 2021, the Court of Appeal of Tanzania ("CAT") delivered its judgment on an appeal instituted by the Company on the appealability of a one-third deposit required to admit objections for the 2012 year of income. The CAT decided that the matters are not tax decisions and are therefore not appealable. Aggrieved by the decision, the Company filed a notice of motion for review of the decision at the same court. In Q3 2022, the CAT agreed with the Company and the matter has now been resolved and withdrawn from the CAT.

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

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

18. Contingencies cont.

Tax cont.

During Q1 2022, following the expiry of the statutory deadline for the TRA to respond to the Company's objections, the Company filed notices of intention to appeal to the Tanzania Revenue Appeals Board ("TRAB") against the corporate income tax assessments for the years of 2012-16, tax on repatriated income for the years of 2012-14, and VAT for the years of 2015-16. In Q2 2022, corporate income tax and tax on repatriated income matters came for hearing and, at the request from the TRA, the TRAB granted an order that these matters be withdrawn to allow the TRA to further review and issue determination letters. During Q3 2022, the TRA issued proposals for settlement of these objections and the Company submitted a response to the TRA. The matters are expected to appear for status review in November 2022. The 2015-16 VAT case came for hearing at TRAB on October 19, 2022. Parties are now required to file their written final submissions by November 14, 2022.

In Q3 2022, TRA and the Company agreed to settle outstanding WHT disputes for the years of income of 2010 and 2015-16. The Company agreed to pay the principal amount of $0.7 million of the assessments foregoing the interest component of $0.5 million. Pursuant to the legal procedures, deeds of settlement signed by both parties were accepted by the TRAB and the Tax Revenue Appeals Tribunal ("TRAT"), the payment was made by the Company to the TRA, and such matters are now formally closed.

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

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

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

19. Change in Non-Cash Operating Working Capital

	Three months ended September 30		Nine months ended September 30	
$'000	2022	2021	2022	2021
Decrease (increase) in trade and other receivables	1,518	(7,265)	(5,657)	(8,201)
Decrease in prepayments	312	202	657	437
(Decrease) increase in trade and other payables	(8,542)	3,864	435	1,757
Decrease in APT	–	–	(8,503)	(11,546)
Increase (decrease) in tax payable	2,837	988	4,493	(51)
Decrease in long-term receivable	–	(1)	–	(1)
	(3,875)	(2,212)	(8,575)	(17,605)

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 TZ") in 2018 for $15.4 million cash and $4.0 million of Swala TZ's 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 TZ 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 TZ is obligated to comply by transferring and returning the Class A common shares of PAEM sold to Swala TZ. The aggregate value of these shares will equal the amount of the outstanding distributions. As at September 30, 2022, the Company has not received any distributions or recorded any amount receivable related to the Preference Shares. On August 8, 2022, the Company issued a redemption notice to Swala TZ, requesting that Swala TZ redeem 20% of the outstanding Preference Shares by August 23, 2022. Swala TZ has responded to the Company's redemption notice and is disputing its obligation to redeem the Swala TZ's convertible preference shares. As at September 30, 2022, this matter remains in dispute between Swala TZ and the Company and the redemption notice request remains outstanding.

Swala TZ 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 TZ does not redeem in cash the required number of Preference Shares, Swala TZ is obligated to redeem the Preference Shares by transferring and returning the Class A common shares of PAEM sold to Swala TZ. The aggregate value of these Class A common shares will equal the amount of any outstanding redemption. As of September 30, 2022, the Company recorded $0.7 million as a loss allowance with respect to Preference Shares (December 31, 2021: $0.7 million).

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

	As at	
$'000	September 30, 2022	December 31, 2021
Balance, beginning of period	3,116	1,523
Net income attributable to non-controlling interest	1,865	1,593
Balance, end of period	4,981	3,116

Corporate Information

Board of Directors

Jay Lyons

Executive Director and
Chief Executive Officer
Vancouver, Canada

Lisa Mitchell

Executive Director and
Chief Financial Officer
London, UK

David W. Ross

Chairman and Non-Executive Director
Calgary, Canada

Dr Frannie Léautier

Non-Executive Director
Washington DC, United States

Linda Beal

Non-Executive Director
London, UK

Advisor to the Board and PAET

Lloyd Herrick

Director, PAET
Calgary, Canada

Officers

Jay Lyons

Chief Executive Officer
Vancouver, Canada

Lisa Mitchell

Chief Financial Officer
London, UK

Ewen Denning

Chief Operating Officer
Gloucester, UK

Andrew Hanna

Managing Director, PAET
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