ORCA

Orca Energy Group Inc.

2023 Q2 Interim Report

Providing reliable domestic natural gas to support Tanzania's growth

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Management's Discussion & Analysis

THIS MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023 SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND NOTES FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023 AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TOGETHER WITH THE MD&A FOR THE YEAR ENDED DECEMBER 31, 2022. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON AUGUST 16, 2023. 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 of 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 Protected Gas to fire kilns for the production of cement. A small amount of Protected Gas is also reserved for village electrification. The Company receives no revenue for the Protected Gas delivered to Songas or other recipients and operates the original wells and gas processing plant on a "no gain no loss" basis. Under the PSA, the Company has the right to produce and market all gas in the Songo Songo gas field in excess of the Protected Gas requirements set forth in the PSA ("Additional Gas") until the PSA expires in October 2026.

The Tanzanian Electric Supply Company Limited ("TANESCO") is a parastatal organization wholly owned by the GoT with oversight by the Ministry of Energy ("MoE"). TANESCO is responsible for the majority of electricity generation, transmission and distribution throughout Tanzania. Natural gas has become an integral component of TANESCO's power generation fuel mix as a more reliable source of supply over seasonal hydropower as well as a more cost-effective and lower 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 49 contracts to supply gas to Dar es Salaam's industrial market.

Financial and Operating Highlights for the Three and Six Months Ended June 30, 2023

(Expressed in $'000 unless indicated otherwise)	Three Months ended June 30 2023	Three Months ended June 30 2022	% Change Q2/23 vs Q2/22	Six Months ended June 30 2023	Six Months ended June 30 2022	% Change Ytd/23 vs Ytd/22
OPERATING						
Daily average gas delivered and sold (*MMcfd*)	**84.2**	85.6	(2)%	**89.5**	79.6	12%
Industrial	**13.9**	14.1	(1)%	**13.7**	14.0	(2)%
Power	**70.3**	71.5	(2)%	**75.8**	65.6	16%
Average price (*$/mcf*)						
Industrial	**8.63**	8.43	2%	**8.50**	8.57	(1)%
Power	**3.66**	3.61	1%	**3.65**	3.57	2%
Weighted average	**4.48**	4.41	2%	**4.39**	4.45	(1)%
Operating netback (*$/mcf*)[1]	**2.52**	2.52	0%	**2.43**	2.87	(15)%
FINANCIAL						
Revenue	**28,006**	28,223	(1)%	**58,413**	55,675	5%
Net income attributable to shareholders	**2,716**	6,567	(59)%	**6,223**	13,958	(55)%
per share – basic and diluted ($)	**0.14**	0.33	(58)%	**0.31**	0.70	(56)%
Net cash flows from operating activities	**16,160**	28,601	(43)%	**23,632**	32,678	(28)%
per share – basic and diluted ($)[1]	**0.81**	1.43	(43)%	**1.19**	1.64	(27)%
Capital expenditures[1]	**1,405**	3,306	(58)%	**3,110**	17,569	(82)%
Weighted average Class A and Class B Shares[1] (*'000*)	**19,842**	19,938	0%	**19,849**	19,941	0%

	June 30, 2023	As at December 31, 2022	% Change
Working capital (including cash)[1]	**71,259**	61,553	16%
Cash and cash equivalents	**102,872**	96,321	7%
Long-term loan	**34,887**	39,762	(12)%
Outstanding shares (*'000*)			
Class A	**1,750**	1,750	0%
Class B	**18,092**	18,126	0%
Total shares outstanding	**19,842**	19,876	0%

[1] Please refer to the Non-GAAP Financial Measures and Ratios section of the MD&A for additional information.

Management's Discussion & Analysis cont.

Financial and Operating Highlights for Q2 2023

- Revenue decreased by 1% for Q2 2023 and increased by 5% for the six months ended June 30, 2023 compared to the same prior year periods. The decrease for Q2 2023 is primarily a result of higher TPDC share of revenue as an outcome of decreased capital expenditures and lower Cost Gas revenue (as defined herein). The increase for the six months ended June 30, 2023 is primarily a result of increased sales to the power sector and higher current income tax adjustment partially offset by a higher TPDC share of revenue.
- Gross conventional natural gas production was in line with forecasts and averaged 120.6 MMcfd (total) for Q2 2023, of which 84.2 MMcfd was Additional Gas. Gas deliveries decreased by 2% for Q2 2023 and increased by 12% for the six months ended June 30, 2023 compared to the same prior year periods. The decrease for Q2 2023 was primarily due to increased planned maintenance of the wells and compression facilities as well as increased hydro production following the onset of the wet season. The increase for the six months ended June 30, 2023 was primarily due to increased gas sales to TPDC through the NNGI.
- We now anticipate our average gas sales to be in the range of 90.0 to 95.0 MMcfd during 2023, compared to 2022 sales of 86.8 MMcfd.
- Net income attributable to shareholders decreased by 59% for Q2 2023 and by 55% for the six months ended June 30, 2023 compared to the same prior year periods, primarily as a result of the increased depletion expense.
- Net cash flows from operating activities decreased by 43% for Q2 2023 and by 28% for the six months ended June 30, 2023 compared to the same prior year periods. This was primarily a result of changes in non-cash working capital adjustments.
- Capital expenditures decreased by 58% for Q2 2023 and by 82% for the six months ended June 30, 2023 compared to the same prior year periods. The capital expenditures in Q1 and Q2 2023 primarily related to the 3D seismic acquisition program. The capital expenditures in Q1 and Q2 2022 primarily related to well workover program.
- The Songo Songo 3D seismic project moved towards completion of mobilization for acquisition at the end of Q2. The progress of the contractor has been slow with delays due to technical challenges associated with the remote location, exacerbated by challenging weather and supply issues. As a result, the Company is evaluating the options for delivering this project.
- We have commenced detailed planning work to carry out a number of projects in late 2023 and 2024. These include an intervention to restore production on the SS-7 well (from the non-producing southern compartment of the field) and installation of a common inlet manifold to optimize production performance of the well gathering system. We have also commenced front end engineering for installing further compression to support production field compartments where pressure is declining. Additionally, procurement of long lead items is ongoing. This will provide the option for drilling an infill development well to access additional reserves in the proven southern compartment of the field. All capital allocation decisions will be based upon prudent economic evaluations and returns given the timeline of the existing license period through to October 2026. Execution of projects will be subject to the necessary stakeholder and government approvals.
- The Company exited the period in a strong financial position with $71.3 million in working capital (December 31, 2022: $61.6 million), cash and cash equivalents of $102.9 million (December 31, 2022: $96.3 million) and long-term debt of $34.9 million (December 31, 2022: $39.8 million). The decrease in long-term debt is related to payment of $5.0 million in April 2023, representing the second semi-annual repayment of the Company's long-term debt.
- During Q2 2023, the PGSA with TANESCO, which was due to expire on June 30, 2023, was extended to a new expiry date of July 31, 2024. As part of the extension, the maximum daily quantity of gas to be sold was increased from 16.0 MMcfd to 26.0 MMcfd. Discussions with TANESCO will now focus on further extension of this contract to the end of the current period of the development license in October 2026 to meet expected gas demand and to allow the Company to effectively deploy near term capital.
- As at June 30, 2023 the current receivable from TANESCO was $3.6 million (December 31, 2022: $3.7 million). During Q2 2023 TANESCO paid the Company $6.5 million against the 2020 take or pay invoice and $3.3 million against the 2021 take or pay invoice. The TANESCO long-term receivable as at June 30, 2023 and as at December 31, 2022 was $22.0 million with a provision of $22.0 million. Subsequent to June 30, 2023 the Company has invoiced TANESCO $1.1 million for July 2023 gas deliveries and TANESCO has paid the Company $3.3 million. Additionally, subsequent to June 30, 2023 TANESCO paid the Company $3.4 million against the 2021 take or pay invoice and TANESCO have now settled the final outstanding principal take or pay invoice (related interest balances remain outstanding).
- On February 24, 2023, the Company declared dividends of CDN$0.10 per share on each of its Class A common voting shares ("Class A Shares") and Class B subordinate voting shares ("Class B Shares") for a total of $1.5 million to the holders of record as of March 31, 2023 paid on April 14, 2023.
- On May 17, 2023, the Company declared dividends of CDN$0.10 per share on each of its Class A Shares and Class B Shares for a total of $1.5 million to the holders of record as of June 30, 2023 paid on July 14, 2023.
- During Q2, the Company formally requested to TPDC to initiate the process of licence extension, in accordance with the terms of the PSA. The Company awaits a formal response from TPDC on this and continues to actively engage with the GoT to progress this matter.

Financial and Operating Highlights for Q2 2023 cont.

- 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 convertible preference shares ("Preference Shares") by August 23, 2022, which were issued to the Company in accordance with the investment agreement dated December 29, 2017 (the "Investment Agreement"), between the Company, the Company's subsidiary PAE PanAfrican Energy Corporation ("PAEM") and Swala's TZ subsidiary, Swala (PAEM) Limited ("Swala UK"). Swala TZ responded to the Company's redemption notice and is disputing its obligation to redeem the Preference Shares. On January 31, 2023, the Company issued a further redemption notice to Swala TZ, requesting that Swala TZ redeem a further 20% of the outstanding Preference Shares by February 15, 2023. As at August 16, 2023, the redemption notice requests of the Company remain outstanding. The Company has submitted a notice of claim to the Tanzanian liquidators.
- 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 claimed 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. On November 11, 2022, the FCC issued another letter to Orca, PAEM and PAET requesting a settlement plan to be submitted to the FCC. The Company is optimistic that there is no merit to the allegations of the FCC against the Company.
- On April 3, 2023, Swala TZ announced that a meeting of its creditors held on March 31, 2023, resolved that Swala TZ be placed into liquidation. Also, on March 31, 2023, Apex Corporate Trustees (UK) Limited appointed representatives of Grant Thornton UK LLP as administrators of Swala UK. Subsequent to June 30, 2023, the Company has repurchased the 7.9% shares in PAEM held by Swala UK, for $7.5 million.

Operating Volumes

The average gross daily sales volume decreased by 2% for Q2 2023 and increased by 12% for the six months ended June 30, 2023 over the comparable prior year periods. This decrease in Q2 is primarily due to increased planned maintenance of the wells and compression facilities. Increased hydro production following the onset of the wet season has also impacted demand as well as increased gas production from another producer in Tanzania. Lower demand has also been experienced from a small number of key customers.

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

	Three Months ended June 30		Six Months ended June 30	
	2023	2022	2023	2022
Gross sales volume *(MMcf)*				
Industrial sector	**1,268**	1,285	**2,476**	2,533
Power sector	**6,397**	6,503	**13,721**	11,880
Total volumes	**7,665**	7,788	**16,197**	14,413
Gross daily sales volume average *(MMcfd)*				
Industrial sector	**13.9**	14.1	**13.7**	14.0
Power sector	**70.3**	71.5	**75.8**	65.6
Gross daily sales volume average total	**84.2**	85.6	**89.5**	79.6

Industrial Sector

Industrial sector gross daily sales volume decreased by 1% for Q2 2023 and by 2% for the six months ended June 30, 2023 over the comparable prior year periods. The decreases were primarily a result of unscheduled maintenance at a cement plant.

Power Sector

Power sector gross daily sales volumes decreased by 2% for Q2 2023 and increased by 16% for the six months ended June 30, 2023 over the comparable prior year periods. The decrease for Q2 2023 over the comparable prior year period was primarily due to increased planned maintenance of the wells and compression facilities, increased hydro production and decreased gas sales to TANESCO. The increase for the six months ended June 30, 2023 over the comparable prior year period was primarily due to increased gas sales to TPDC though the NNGI.

Protected Gas Volumes

Protected Gas volumes decreased by 6% to 3,257 MMcf (35.8 MMcfd) for Q2 2023 compared to 3,465 MMcf (38.1 MMcfd) for Q2 2022 and by 1% to 6,717 MMcf (37.1 MMcfd) for the six months ended June 30, 2023 compared to 6,809 MMcf (37.6 MMcfd) for the six months ended June 30, 2022. 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:

	Three Months ended June 30		Six Months ended June 30	
$/mcf	2023	2022	2023	2022
Average sales price				
Industrial sector	**8.63**	8.43	**8.50**	8.57
Power sector	**3.66**	3.61	**3.65**	3.57
Weighted average price	**4.48**	4.41	**4.39**	4.45

Industrial Sector

The average sales price for the industrial sector increased by 2% for Q2 2023 and decreased by 1% for the six months ended June 30, 2023 over the comparable prior year periods. The average sales price for the industrial sector varies primarily due to the underlying fluctuations 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 Q2 2023 and by 2% for the six months ended June 30, 2023 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, 2022).

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 Statements of Comprehensive Income is calculated by adjusting the Company's operating revenue by the income tax adjustment.

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

	Three Months ended June 30		Six Months ended June 30	
$'000	2023	2022	2023	2022
Industrial sector	**10,943**	10,834	**21,052**	21,700
Power sector	**23,423**	23,484	**50,057**	42,429
Gross field revenue	**34,366**	34,318	**71,109**	64,129
TPDC share of revenue	**(10,636)**	(9,924)	**(22,209)**	(14,442)
Company operating revenue	**23,730**	24,394	**48,900**	49,687
Current income tax adjustment	**4,276**	3,829	**9,513**	5,988
	28,006	28,223	**58,413**	55,675

Revenue decreased by 1% for Q2 2023 and increased by 5% for the six months ended June 30, 2023 over the comparable prior year periods. The decrease for Q2 2023 over the comparable prior year period is primarily a result of higher TPDC share of revenue as an outcome of decreased capital expenditures and lower Cost Gas revenue. The increase for the six months ended June 30, 2023 over the comparable prior year period is primarily a result of increased sales to the power sector and higher current income tax adjustment partially offset by a higher TPDC share of revenue.

The average Additional Gas sales volumes for the quarters ended June 30, 2023 and June 30, 2022 as well as for the quarters ended March 31, 2023 and March 31, 2022 were above 50 MMcfd which entitled the Company to a 55% share of Profit Gas revenue. The Company was allocated a total of 66% of the Additional Gas net field revenue for Q2 2023 (Q2 2022: 68%) and a total of 66% of the Additional Gas net field revenue for the six months ended June 30, 2023 (six months ended June 30, 2022: 75%).

Production, Distribution and Transportation Expenses

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

	Three Months ended June 30		Six Months ended June 30	
$'000	2023	2022	2023	2022
Operating costs	**1,097**	759	**2,012**	1,466
Tariff for processing and pipeline infrastructure	**2,869**	3,169	**5,944**	5,476
Ring-main distribution costs	**388**	915	**1,533**	1,435
	4,354	4,843	**9,489**	8,377

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 45% for Q2 2023 and by 37% for the six months ended June 30, 2023 compared to the same prior year periods, primarily as a result of the increase of insurance costs. The amount paid under the tariff for processing and pipeline infrastructure decreased by 9% for Q2 2023 and increased by 9% for the six months ended June 30, 2023 compared to the same prior year periods, primarily as a result of fluctuations in gas volumes processed and delivered through the Songas Infrastructure. Ring-main distribution costs decreased by 58% for Q2 2023 and increased by 7% for the six months ended June 30, 2023 compared to the same prior year periods. The decrease for Q2 2023 over the comparable prior year period primarily is a result of higher repairment costs incurred in Q2 2022. The increase for the six months ended June 30, 2023 over the comparable prior year period primarily is a result of higher compressor maintenance costs in Q1 2023.

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 June 30		Six Months ended June 30	
$/mcf	2023	2022	2023	2022
Weighted average price for gas	**4.48**	4.41	**4.39**	4.45
TPDC Profit Gas entitlement	**(1.39)**	(1.27)	**(1.37)**	(1.00)
Production, distribution and transportation expenses	**(0.57)**	(0.62)	**(0.59)**	(0.58)
Operating netback	**2.52**	2.52	**2.43**	2.87

The operating netback remained unchanged for Q2 2023 and decreased by 15% for the six months ended June 30, 2023 over the comparable prior year periods. The decrease is due to a lower weighted average price for natural gas as a result of an increased share of sales to the power sector combined with an increase in TPDC's share of revenue as an outcome of decreased capital expenditures and lower Cost Gas revenue recoveries by the Company.

General and Administrative Expenses

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

	Three Months ended June 30		Six Months ended June 30	
$'000	2023	2022	2023	2022
Tanzania	**2,064**	1,726	**3,990**	3,690
Corporate	**2,249**	1,627	**3,766**	2,656
	4,313	3,353	**7,756**	6,346

Management's Discussion & Analysis cont.

General and Administrative Expenses cont.

General and administrative expenses are detailed in the tables below:

	Three Months ended June 30		Six Months ended June 30	
$'000	2023	2022	2023	2022
Employee and related costs	**2,678**	1,891	**4,450**	3,442
Office costs	**1,032**	995	**1,916**	1,946
ESG, marketing and business development costs	**30**	35	**108**	118
Reporting, regulatory and corporate	**573**	432	**1,282**	840
	4,313	3,353	**7,756**	6,346

General and administrative expenses averaged $1.4 million per month during Q2 2023 (Q2 2022: $1.1 million) and $1.3 million per month for the six months ended June 30, 2023 (six months ended June 30, 2022: $1.1 million). The 29% increase in employee and related costs for the six months ended June 30, 2023 over the comparable prior year period was mainly a result of additions in the headcount. Office costs for Q2 2023 and for the six months ended June 30, 2023 have not significantly changed over the comparable prior year periods. The 8% decrease in ESG, marketing and business development costs for the six months ended June 30, 2023 over the comparable prior year period was a result of a decrease in ESG related costs. The 53% increase in reporting, regulatory and corporate costs for the six months ended June 30, 2023 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 (recovered) in relation to stock based compensation is detailed in the table below:

	Three Months ended June 30		Six Months ended June 30	
$'000	2023	2022	2023	2023
Stock appreciation rights ("SARs")	**4**	76	**5**	65
Restricted stock units ("RSUs")	**1**	(105)	**2**	(110)
	5	(29)	**7**	(45)

As at June 30, 2023 and December 31, 2022 a total of 14,000 SARs were outstanding. No new SARs were issued, forfeited or exercised during Q2 2023. As at June 30, 2023 and December 31, 2022 a total of 2,833 RSUs were outstanding. No new RSUs were issued, forfeited or exercised during Q1 2023.

As SARs and RSUs are settled in cash, they are re-valued at each reporting date using the Black-Scholes option pricing model with the resulting liability being recognized in trade and other liabilities. In the valuation of SARs and RSUs as at June 30, 2023, the following assumptions have been made: a risk free rate of interest of 1.0% (December 31, 2022: 1.0%), stock volatility of 23.2% (December 31, 2022: 25.4% to 37.8%), 5% forfeiture (December 31, 2022: 5%) and a closing stock price of CDN$5.24 (December 31, 2022: CDN$4.68) 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 June 30, 2023 a total accrued liability of $0.02 million (December 31, 2022: $0.02 million) has been recognized in relation to SARs and RSUs which is included in other payables. The Company recognized an expense of $0.005 million for Q2 2023 (Q2 2022: recovery of $0.03 million) and $0.007 million for the six months ended June 30, 2023 (six months ended June 30, 2022: recovery of $0.05 million) on stock based compensation.

Depletion and Depreciation

Natural gas properties are depleted using the unit of production method based on the production for the period as a percentage of the total future production from the Songo Songo proved reserves.

The average depletion rate of $1.13/mcf for the quarter and the six months ended June 30, 2022 compared to $0.84/mcf for the comparable prior year periods.

	Three Months ended June 30		Six Months ended June 30	
$'000	2023	2022	2023	2022
Oil and natural gas interests	**8,624**	6,562	**18,225**	12,144
Office and other	**28**	23	**52**	22
Right-of-use assets	**69**	73	**139**	146
	8,721	6,658	**18,416**	12,312

The depletion for natural gas interests increased by 31% for Q2 2023 and by 50% for the six months ended June 30, 2023 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.

Finance Income and Expense

Finance income is detailed in the table below:

	Three Months ended June 30		Six Months ended June 30	
$'000	2023	2022	2023	2022
Interest income	**455**	65	**718**	126
	455	65	**718**	126

Finance expense is detailed in the table below:

	Three Months ended June 30		Six Months ended June 30	
$'000	2023	2022	2023	2022
Base interest expense	**1,219**	1,463	**2,545**	2,920
Participation interest expense	**1,028**	908	**1,571**	908
Lease interest expense	**1**	6	**4**	13
Interest expense	**2,248**	2,377	**4,120**	3,841
Net foreign exchange loss	**314**	145	**1,286**	220
Indirect tax	**343**	245	**680**	465
Long-term receivable write off	**2,205**	–	**2,205**	–
	5,110	2,767	**8,291**	4,526

Base interest expense and participation interest expense relate to the long-term loan ("Loan") from the International Finance Corporation ("IFC") to PAET, the Company's subsidiary operating in Tanzania. Base interest on the Loan is payable quarterly in arrears at 10% per annum on a "pay-if-you-can-basis" using a formula to calculate the net cash available for such payments as at any given interest payment date. The participation interest expense is paid annually in arrears. It equates to 6.4% of PAET's net cash flows from operating activities less the net cash flows used in investing activities for the year. Such participation interest will continue to accrue 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, less the net cash used in investing activities, for the three and six months ended June 30, 2023 over the comparable prior year periods.

Management's Discussion & Analysis cont.

Finance Income and Expense cont.

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

The indirect tax is for value added tax ("VAT") associated with invoices to TANESCO for interest on late payments. Long-term receivable write off is related to VAT on the workovers that had already been paid and was reclassified as a long-term receivable in 2017 (see "Long-term Receivables" in this MD&A).

Reversal of Loss Allowance for Receivables

	Three Months ended June 30		Six Months ended June 30	
$'000	2023	2022	2023	2022
Reversal of loss allowance	**1,495**	2,049	**1,495**	2,049

The reversal of loss allowance of $1.5 million in Q2 2023 and for the six months ended June 30, 2023 is associated with the indirect taxation related to the TANESCO 2020 and 2021 take or pay invoices which were paid in Q2 2023 and had been previously not recognized. The reversal of loss allowance of $2.1 million in Q2 2022 and for the six months ended June 30, 2022 is associated with indirect taxation related to the TANESCO 2017 take or pay invoice which was paid in Q2 2022 and had been previously not recognized.

Additional Profits Tax

	Three Months ended June 30		Six Months ended June 30	
$'000	2023	2022	2023	2022
APT	**2,030**	1,950	**4,234**	2,902

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 June 30, 2023 the current portion of APT payable was $8.1 million (December 31, 2022: $13.1 million) with a long-term APT payable of $11.4 million (December 31, 2022: $15.3 million). APT of $13.1 million was paid in Q1 2023 based on the 2022 results (Q1 2022: $8.5 million based on 2021 results).

The effective APT rate for Q2 2032 of 15.6% (Q2 2022: 17.3%) has been applied to Profit Gas revenue of $13.0 million for Q2 2023 (Q2 2022: $11.2 million) and $27.1 million for the six months ended June 30, 2023 (six months ended June 30, 2022: $16.7 million). Accordingly, $2.0 million for Q2 2023 (Q2 2022: $2.0 million) and $4.2 million for the six months ended June 30, 2023 (six months ended June 30, 2022: $2.9 million) of APT has been recorded in the Company's Consolidated Interim Statements of Comprehensive Income.

Working Capital

Working capital as at June 30, 2023 was $71.3 million (December 31, 2022: $61.6 million) and is detailed in the table below (see also "Non-GAAP Financial Measures and Ratios"):

$'000	As at June 30, 2023		As at December 31, 2022	
Cash and cash equivalents		**102,872**		96,321
Trade and other receivables				
Songas	**6,478**		12,640	
TPDC	**4,242**		4,694	
TANESCO	**3,597**		3,736	
Industrial customers and other receivables	**14,324**		15,207	
Loss allowance	**(1,177)**	**27,464**	(1,177)	35,100
Prepayments		**1,335**		1,551
		131,671		132,972
Trade and other liabilities				
TPDC share of Profit Gas revenue[1]	**15,040**		19,440	
Songas	**2,915**		2,933	
Deferred income – take or pay contracts	**7,110**		10,665	
Other trade payables and accrued liabilities	**9,192**		10,154	
Current portion of long-term loan	**10,000**		10,000	
Current portion of APT	**8,145**	**52,402**	13,146	66,338
Tax payable		**8,010**		5,081
		60,412		71,419
Working capital		**71,259**		61,553

1 The balance of $15.0 million payable to TPDC is the liability for TPDC's share of Profit Gas revenue, primarily related to unpaid gas deliveries to TANESCO. The majority of the settlement of this liability is dependent on receipt of payment from TANESCO for arrears. For their allocation of Profit Gas revenue, the Company paid TPDC $5.7 million in February 2023, $11.5 million in April 2023 and $4.9 million in July 2023.

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 cease to be recognized 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.

Management's Discussion & Analysis cont.

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 debt and interest payments ($7.6 million) and capital expenditure ($36.2 million) for 2023. The Company has not incurred any losses from debtors in 2022 and in six months ended June 30, 2023 and does not expect to incur any loses from debtors in 2023. 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. 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 as of Q2 2023, 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 June 30, 2023 the current receivable from TANESCO was $3.6 million (December 31, 2022: $3.7 million). During Q2 2023 the Company invoiced TANESCO $6.9 million for gas deliveries (Q2 2022: $11.1 million) and received $2.8 million in payments for current receivables (Q2 2022: $6.9 million). Based on the consistent payments from TANESCO, the Company: (i) recognized all amounts invoiced for gas deliveries in Q2 2023 and Q2 2022 as revenue; and (ii) recognized $ nil during Q2 2023 (Q2 2022: $ 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. During Q2 2023 TANESCO paid the Company $6.5 million against the 2020 take or pay invoice and $3.3 million against the 2021 take or pay invoice.

The TANESCO long-term receivable as at June 30, 2023 and as at December 31, 2022 was $22.0 million with a provision of $22.0 million. Subsequent to June 30, 2023 the Company has invoiced TANESCO $1.1 million for July 2023 gas deliveries and TANESCO has paid the Company $3.3 million. Additionally, subsequent to June 30, 2023 TANESCO paid the Company $3.4 million against the 2021 take or pay invoice.

Capital Expenditures

The capital expenditures (see "Non-GAAP Financial Measures and Ratios") in Q1 and Q2 2023 primarily related to the 3D seismic acquisition program. The capital expenditures in Q1 and Q2 2022 primarily related to the well workover program.

	Three Months ended June 30		Six Months ended June 30	
$'000	2023	2022	2023	2022
Pipelines and infrastructure	**1,305**	3,293	**2,999**	17,307
Other capital expenditures	**100**	13	**111**	262
	1,405	3,306	**3,110**	17,569

Capital Requirements

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

As at the date of this report, the Company's only significant contractual commitment is in relation to the 3D seismic acquisition and processing program to acquire approximately 181 square kilometres of 3D marine, transition and land based seismic over the Songo Songo license area. This program is intended to de-risk future development drilling and to evaluate the prospective resource potential for future exploration drilling. The 3D seismic acquisition program, originally budgeted at $23.2 million, is currently ongoing and is expected to continue through Q4 2023 and to now cost $24.2 million. As of June 30, 2023, $3.6 million of the seismic contracts has been paid, the remaining capital expenditures of $20.6 million is forecasted to be paid in Q4 2023.

With the emergence of longer term high levels of gas demand our short term 2023 forecast capital expenditure remains at circa $38.0 million. We continue to work with the GoT on an alternative development plan for the longer term field development.

Long-term Receivables

$'000	As at June 30, 2023	As at December 31, 2022
VAT on Songas workovers	–	2,205
Lease deposit	10	10
	10	2,215

In 2017, based on agreement with TPDC, $12.3 million relating to the Songas share of workover costs of the wells SS-5 and SS-9 was transferred to the cost pool, which enabled the Company to recover the costs via the PSA cost recovery mechanism. This resulted in $2.2 million relating to VAT previously paid by the Company on the workovers being reclassified as a long-term receivable. In Q2 2023, Songas agreed to pay the Company $7.6 million as full and final settlement of their share of the workover costs of the SS-5 and SS-9 wells. Pursuant to the agreement with Songas, the originally issued invoices will not be settled, hence the recovery of the associated VAT of $2.2 million has been written off in Q2 2023. On receipt of the $7.6 million cash from Songas, due to be paid in monthly instalments across Q4 2023 and Q1 2024, the Company will credit the PSA cost pool accordingly.

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

$'000	As at June 30, 2023	As at December 31, 2022
Total amounts invoiced to TANESCO	87,063	92,547
Trade receivable – TANESCO	(3,597)	(3,736)
Unrecognized amounts not meeting revenue recognition criteria[1]	(61,448)	(66,793)
Loss allowance	(22,018)	(22,018)
	–	–

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

Long-term Loan

In 2015 PAET obtained 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 October 15, 2022, and one final payment of $25.2 million will be due on October 15, 2025. The Company may voluntarily prepay all or part of the Loan but must simultaneously pay any accrued base interest costs related to the principal amount being prepaid. The Loan is an unsecured subordinated obligation of PAET and was guaranteed by the Company to a maximum of $30.0 million. The guarantee may only be called upon by IFC at maturity in 2025 and, subject to IFC approval and receipt of all required regulatory approvals, the Company, at its discretion, may issue shares in fulfillment of all or part of its guarantee obligation in 2025. Pursuant to the sale of a non-controlling interest in PAEM, the parent company of PAET, in 2018, the Company agreed with the IFC to reduce the outstanding amount of the Loan by the percentage interest sold of 7.9% ($4.8 million) before the fourth anniversary of the first drawdown. PAET made this payment on October 16, 2019.

Dividends and distributions from PAET to PAEM 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.

Management’s Discussion & Analysis cont.

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 normal course issuer bid commenced on June 21, 2021 (“2021 NCIB”), the Company repurchased and cancelled a total of 60,900 Class B Shares at an average price per Class B Share of CDN$5.18 as of June 30, 2022. Pursuant to the normal course issuer bid commenced on July 11, 2022 (“2022 NCIB”), the Company had repurchased and cancelled a total of 81,200 Class B Shares at a weighted average price of CDN$4.89 as of June 30, 2023 and July 11, 2023. 1,750,495 Class A Shares and 18,091,714 Class B Shares were outstanding as at June 30, 2023 and August 16, 2023. See “Normal Course Issuer Bid and Dividends” in this MD&A.

Cash Flow Summary

	Three Months ended June 30		Six Months ended June 30	
$’000	2023	2022	2023	2022
Operating activities				
Net income	**3,282**	7,123	**7,196**	15,226
Non-cash adjustments	**9,426**	9,278	**20,305**	18,311
Interest expense	**2,248**	2,377	**4,120**	3,841
Changes in non-cash working capital[1]	**1,204**	9,823	**(7,989)**	(4,700)
Net cash flows from operating activities	**16,160**	28,601	**23,632**	32,678
Net cash used in investing activities	**(1,866)**	(8,598)	**(3,363)**	(15,774)
Net cash used in financing activities	**(10,841)**	(4,492)	**(13,722)**	(7,592)
Increase in cash	**3,453**	15,511	**6,547**	9,312

1 See Condensed Consolidated Interim Statements of Cash Flows

The Company’s net cash flows from operating activities decreased by 43% for Q2 2023 and by 28% for the six months ended June 30, 2023 over the comparable prior year periods primarily a result of changes in non-cash working capital. The decrease in net cash used in investing activities for Q2 2023 and for the six months ended June 30, 2023 over the comparable prior year periods was mainly a result of higher expenditure in the first six months of 2022 in relation to the well workover program. The increase in net cash used in financing activities for Q2 2023 and for the six months ended June 30, 2023 over the comparable prior year periods was mainly an outcome of the repayment of the second instalment of the Loan in Q2 2023.

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 $0.4 million during the quarter ended June 30, 2023 (Q2 2022: $0.1 million) and $0.5 million for the six months ended June 30, 2023 (six months ended June 30, 2022: $0.3 million). As at June 30, 2023 the Company had a total of $0.5 million (December 31, 2022: $0.1 million) recorded in trade and other payables in relation to related parties.

Normal Course Issuer Bid and Dividends

On June 21, 2021 the Company commenced the 2021 NCIB to purchase Class B Shares through the facilities of the TSX Venture Exchange ("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 Company 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. 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.

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 were made by Research Capital on behalf of the Company and were not to 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 was in effect from July 11, 2022 until July 11, 2023. As at June 30, 2023 and July 11, 2023 the Company had repurchased and cancelled 81,200 Class B Shares at a weighted average price of CDN$4.89 per share pursuant to the 2022 NCIB. Shareholders may obtain a copy of the notice regarding the 2021 NCIB and 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$)
May 17, 2023	June 30, 2023	July 14, 2023	0.10
February 24, 2023	March 31, 2023	April 14, 2023	0.10
November 16, 2022	December 31, 2022	January 13, 2023	0.10
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

Consolidation

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

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

Management’s Discussion & Analysis cont.

Non-Controlling Interest

The Company sold 7.9% (7,933 Class A common shares) of PAEM to Swala UK in 2018 for $15.4 million cash and $4.0 million of Swala TZ’s Preference Shares pursuant to a share purchase agreement. The Preference Shares entitled 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 was at the discretion of Swala TZ based on funds available, however, the liability accrued if any amount was unpaid when due. For any distributable amount remaining unpaid at December 31, 2021, the Company may demand settlement and Swala TZ was 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 June 30, 2023, the Company has not received any distributions or recorded any amount receivable related to the Preference Shares.

Swala TZ was 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 did not redeem in cash the required number of Preference Shares, Swala TZ was 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 is equal the amount of any outstanding redemption. 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. On January 31, 2023 the Company issued a further redemption notice to Swala TZ, requesting that Swala TZ redeem a further 20% of the outstanding Swala TZ’s Preference Shares by February 15, 2023. As at June 30, 2023, this matter remained in dispute between Swala TZ and the Company and the Company’s request under both redemption notices remained outstanding.

On April 3, 2023, Swala TZ announced that its creditors resolved that Swala TZ be placed into liquidation at a creditors’ meeting held on March 31, 2023. On March 31, 2023, Apex Corporate Trustees (UK) Limited appointed representatives of Grant Thornton UK LLP as administrators of Swala UK. Subsequent to June 30, 2023, the Company has repurchased the 7.9% shares in PAEM held by Swala UK (currently in administration), for $7.5 million and the non-controlling interest will be eliminated in the Q3 report. The $4.0 million due to the Company by way of preference share redemptions from Swala TZ remain outstanding, however the Company has submitted a notice of claim to the Tanzanian liquidators.

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

	As at	
$’000	June 30, 2023	December 31, 2022
Balance, beginning of period	5,670	3,116
Net income attributable to non-controlling interest	973	2,554
Balance, end of period	6,643	5,670

Contingencies

Taxation

Amounts in $' millions					As at June 30, 2023	December 31, 2022
Area	Period	Reason for dispute	Principal	Interest	Total	Total
Income Tax	2008-09, 2011-20	Deductibility of capital expenditures and expenses (2012, 2015 and 2016), additional income tax (2008, 2011 and 2012), foreign exchange rate application (2013 to 2015, 2018 to 2020), underestimation of tax due (2014, 2016 and 2020) and methodology of grossing up of income taxes paid (2015 to 2017).	19.5	12.8	**32.3**	34.2
Tax on Repatriated Income	2012-21	Applicability of withholding tax on repatriated income (2012 to 2021)	21.7	3.7	**25.4**	24.9
VAT	2012-20	VAT already paid (2012 to 2014), VAT on imported services (2015 and 2016), interest on VAT decreasing adjustments (2017) and input VAT on services (2017 to 2020).	0.3	1.3	**1.6**	1.6
			41.5	17.8	**59.3**	60.7

During 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 to 2016, tax on repatriated income for the years of 2012 to 2014, and VAT for the years of 2015 to 2016. On several occasions during 2022 these matters came for hearing, and in April 2023, the Company received determination letters from the TRA. Further to that, in May 2023, the TRA issued final corporate income tax assessments for the years of 2012 to 2016, in which the TRA agreed to drop certain claims with respect to previously assessed corporate income tax for the years of income of 2012 and 2016. These claims are no longer represented in the table above.

On May 22, 2023, the TRAB pronounced its judgement on the VAT appeal for the years of 2015 and 2016 ($0.2 million) in favour of the Company. A written judgement is still pending. The TRA did not file a Notice of Intention to Appeal at Tax Revenue Appeals Tribunal ("TRAT") by the statutory filing deadline. The Company continues to monitor actions taken by the TRA.

On May 15, 2023, the Company filed statements of appeal at the TRAB for the remainder of claims on TRA's notice of assessments with respect to the corporate income tax assessments for the years of 2012 to 2016 and tax on repatriated income for the years of 2012 to 2014, and is awaiting a hearing date.

In Q4 2022, the TRA issued seven assessments for tax on repatriated income ($10.6 million) for the years of 2015 to 2021. The Company objected to the assessments on the grounds of the assessments lacking merit; additionally, the assessments for the years of 2015 and 2016 were time-barred. In Q1 2023, the Company received TRA's proposals to settle the objections. In Q2 2023, the Company responded to the proposals and is now awaiting TRA's final determination.

In Q4 2022, the TRA issued six assessments for income tax and for ensuing interest on deemed delayed payments ($0.5 million) for the years of 2018 to 2020. The Company objected to the assessments on the grounds of incorrect disallowance of expenses and use of exchange rates. The Company is awaiting TRA's response.

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 Court of Appeal of Tanzania ("CAT"). See Note 21 of the audited consolidated financial statements for the year ended December 31, 2022 for a full discussion.

In 2016 the TRA introduced significant changes in relation to the income tax treatment of the extractive sector with separate new chapters in Part V of the Income Tax Act 2004 ("ITA, 2004") for mining and for petroleum to be effective commencing in 2018. Further changes were subsequently made by the Written Laws (Miscellaneous Amendments) Act, 2017 ("WLMAA, 2017") and in particular section 36(a)(ii) of the WLMAA, 2017. The WLMAA, 2017 amended sections 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:

Figures in $‘000 except where otherwise stated	2023		2022				2021	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	**28,006**	30,407	31,877	30,537	28,223	27,452	24,819	22,271
Net income attributable to shareholders	**2,716**	3,507	2,325	11,443	6,567	7,391	1,548	7,613
Earnings per share								
– basic and diluted ($)	**0.14**	0.18	0.12	0.57	0.33	0.37	0.08	0.38
Net cash flows from operating activities	**16,160**	7,472	15,438	19,544	28,601	4,077	18,521	12,132
Capital expenditures	**1,405**	1,705	3,615	1,222	3,306	14,263	12,496	3,715

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. Revenue increased in Q4 2022 as a result of a further increase in sales to both industrial and the power sector and a higher current income tax adjustment. Revenue decreased in Q1 2023 as a result of a decrease in sales to the industrial sector. Revenue decreased in Q2 2023 as a result of a further decrease in sales to both the industrial sector and the power sector partially offset by a decreased TPDC share of revenue.

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

- 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 an increase in finance expense;
- the increase in Q3 2022 was a result of a collection of TANESCO arrears;
- the decrease in Q4 2022 was a result of no collection of TANESCO arrears compared to Q3 2022 and the impairment of the investment in Swala TZ in Q4 2022;
- the increase in Q1 2023 was a result of a higher deferred tax recovery; and
- the decrease in Q2 2023 was a result of higher general and administrative and finance expenses.

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 increase in Q4 2021 was mainly a result of the changes in the non-cash working capital, namely the decrease in trade and other payables. 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. The decreases in Q4 2022 and Q1 2023 were primarily a result of the changes in the non-cash working capital, namely the decreases in tax payable and trade and other payables. Similarly, the increase in Q2 2023 was primarily a result of the changes in the non-cash working capital, namely the decrease in trade and other receivables.

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. Capital expenditures in Q4 2022 and Q1 and Q2 2023 were mainly related to 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.

Non-GAAP Financial Measures

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:

	Six Months ended June 30		Six Months ended June 30	
$'000	2023	2022	2023	2022
Pipelines, well workovers and infrastructure	**1,305**	3,293	**2,999**	17,307
Other capital expenditures	**100**	13	**111**	262
Capital expenditures	**1,405**	3,306	**3,110**	17,569
Change in non-cash working capital	**461**	5,292	**253**	(1,795)
Net cash used by investing activities	**1,866**	8,598	**3,363**	15,774

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 June 30		Six Months ended June 30	
$'000	2023	2022	2023	2022
Revenue	**28,006**	28,223	**58,413**	55,675
Production, distribution and transportation expenses	**(4,354)**	(4,843)	**(9,489)**	(8,377)
Net Production Revenue	**23,652**	23,380	**48,924**	47,298
Less current income tax adjustment (recorded in revenue)	**(4,276)**	(3,829)	**(9,513)**	(5,988)
Operating netback	**19,376**	19,551	**39,411**	41,310
Sales volumes MMcf	**7,665**	7,788	**16,197**	14,413
Netback $/mcf	**2.52**	2.52	**2.43**	2.87

Non-GAAP Ratios

Operating netback per mcf

Operating netback per mcf represents 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.

Management's Discussion & Analysis cont.

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, 2022 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, 2022 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: anticipated average gas sales for 2023; the Company's expectations regarding the timing and costs associated with the 3D seismic acquisition and processing program, including the Company's plans to evaluate options to deliver the project; the Company's commencement of detailed planning work and expectations to carry out a number of projects in late 2023 and 2024; the Company's expectation that procurement of long lead items will provide an option for drilling an infill development well to access additional reserves; the Company's expectation that all capital allocation decisions will be based upon prudent economic evaluations and returns; the Company's expectation that discussions with TANESCO will focus on a further contract extension to October 2026 to meet expected gas demand and deploy near term capital; the Company's expectation to continue to actively engage with the GoT to progress the license extension; the Company's assessment of the merits of the FCC claim; the timing and effective rate of the APT payable by the Company and forecasts regarding future development capital spending; 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 debt and interest payments and capital expenditure forecasts; the Company's expectation that it will 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 flow or liquidity; the Company's expectations that it will be able to convert Tanzanian shillings into US dollars; the Company does not expect to incur any loses from debtors in 2023; the Company's expectations regarding supply and demand of natural gas; the Company's expectations regarding the creation of alternative development plan for the longer term field development; expectations regarding the recovery of workover costs from Songas under the settlement agreement and receipt of such payments in Q4 2023 and Q1 2024; the Company's obligation to make future deposits to object to the TRA's assessments; the Company's expectations regarding changes to its tax liabilities and the results of its operations as a result of amendments made to the ITA, 2004, the WLMAA, 2017 and the implementation of further legislation; and Company's expectation and evaluations on the timing and results of its position, objections and appeals to the decisions and assessments of the TRA and TRAB 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 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.

Forward Looking Statements cont.

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 gas sales are lower than anticipated; failure to complete the 3D seismic acquisition and processing program on the timeline or at the cost anticipated; the Company's anticipated projects to be completed in late 2023 and 2024 are delayed; that procurement of long lead items will not result in accessing additional reserves; that not all capital allocation decisions will be based upon prudent economic evaluations and returns; incorrect assessment by the Company of the merits of the FCC claim; a contract extension with TANESCO to October 2026 will not result in the Company meeting expected gas demand and deploy near term capital; changes to the timing and effective rate of the APT payable by the Company and changes to forecasts regarding future development capital spending; failure to receive payments from TANESCO; risk of future restrictions on the movement of cash from Jersey, Mauritius or Tanzania; occurrence of circumstance or events which significantly impact the Company's cash flow and liquidity and the Company's ability cover its long-term and short-term obligations or fund planned capital expenditures; occurrence of loses from debtors in 2023; the lack of availability of US dollars; the Company's inability to convert Tanzanian shillings into US dollars as and when required; fluctuations in the supply and demand of natural gas; the development of a longer term field development may not proceed as anticipated and delays in development plans; late receipt to recover workover costs from Songas under the settlement agreement; risks regarding the uncertainty around evolution of Tanzanian legislation; the risks surrounding the Company's ability to make future deposits to object the TRA's assessments; 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; risk of unanticipated effects regarding changes to the Company's tax liabilities and its operations as a result of amendments made to the ITA, 2004, the WLMAA, 2017, the implementation of further legislation and the Company's interpretation of the same; 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; risks associated with the Company's ability to complete sales of Additional Gas; 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; 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 the interpretation and enforcement of such regulations; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices, foreign exchange or interest rates; stock market volatility; competition for, among other things, capital, oil and gas field services and skilled personnel; failure to obtain required equipment for field development; 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; imprecision in reserve estimates; incorrect forecasts in production and growth potential of the Company's assets; obtaining required approvals of regulatory authorities; risks associated with negotiating with foreign governments; failure to successfully negotiate agreements; risk that the Company will not be able to fulfill its contractual obligations; risk that trade and other receivables may not be paid by the Company's customers when due; inability to satisfy debt conditions of financing; changes to the Company's debt and interest payments and capital expenditure forecasts; the risk that the Company's Tanzanian operations will not provide near term revenue earnings; and such additional risks listed under "Business Risks" in the Company's MD&A for the year ended December 31, 2022. 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 gas sales are in line with forecasts; the timeline and costs to complete the Company's 3D seismic acquisition and processing program, are in line with estimates; commencing detailed planning work will lead to carrying out a number of projects in late 2023 and 2024; that procurement of long lead items will result in an option for drilling an infill development well to access additional reserves; all capital allocation decisions will be based upon prudent economic evaluations and returns; a contract extension with TANESCO to October 2026 will result in the Company meeting expected gas demand and deploy near term capital; correct assessment of the merits of the FCC claim by the Company; correct forecast on the timing and effective rate of the APT payable by the Company; that the Company will receive payment of arrears from TANESCO; that there will continue to be no restrictions on the movement of cash from Mauritius, Jersey or Tanzania; 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 debt and interest obligations as needed; the Company does not incur any loses from debtors in 2023; absence of circumstances or events that significant impact the Company's cash flow and liquidity; the Company will continue to be able to convert Tanzanian shillings into US dollars; the anticipated supply and demand of natural gas are in line with the Company's expectations; long term field development will be carried out as planned; that the Company will recover workover costs from Songas under the settlement agreement with receipt of such payments in Q4 2023 and Q1 2024; the Company's assessment of the merits of its appeal or claims before the TRA and TRAB regarding tax assessments and penalties; the Company's interpretation and prediction of the effects regarding changes to the Company's tax liabilities and its operations as a result of amendments made to the ITA, 2004, the WLMAA, 2017, the implementation of further legislation; the Company's ability to obtain revenue earnings from its operations; 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 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;

Management's Discussion & Analysis cont.

Forward Looking Statements cont.

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 any new environmental and climate-change related regulations will not negatively impact the Company; the Company's ability to maintain strong commercial relationships with the GoT and other state and parastatal organizations; the current and future administration in Tanzania continues to honor the terms of the PSA and the Company's other principal agreements; and other matters.

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

Oil and Gas Advisory

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

Additional Information

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

Glossary

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

Q2 2023 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 six-month periods ended June 30, 2023.

Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited)

		Three Months ended June 30		Six Months ended June 30	
$'000	Note	2023	2022	2023	2022
Revenue	6, 7	**28,006**	28,223	**58,413**	55,675
Production, distribution and transportation		**4,354**	4,843	**9,489**	8,377
Net production revenue Operating expenses		**23,652**	23,380	**48,924**	47,298
General and administrative		**4,313**	3,353	**7,756**	6,346
Stock based compensation expense (recovery)	14	**5**	(29)	**7**	(45)
Depletion	10	**8,624**	6,562	**18,225**	12,144
Reversal of loss allowance for receivables	9	**(1,495)**	(2,049)	**(1,495)**	(2,049)
Finance income	8	**(455)**	(65)	**(718)**	(126)
Finance expense	8	**5,110**	2,767	**8,291**	4,526
Income before tax		**7,550**	12,841	**16,858**	26,502
Income tax expense – current		**4,072**	3,272	**8,817**	5,399
Income tax (recovery) expense – deferred		**(1,834)**	496	**(3,389)**	2,975
Additional Profits Tax		**2,030**	1,950	**4,234**	2,902
Net income		**3,282**	7,123	**7,196**	15,226
Net income attributable to non-controlling interest	20	**566**	556	**973**	1,268
Net income attributable to shareholders		**2,716**	6,567	**6,223**	13,958
Foreign currency translation gain (loss) from foreign operations		**16**	(59)	**38**	(82)
Comprehensive income		**2,732**	6,508	**6,261**	13,876
Net income attributable to shareholders per share *($)*					
Basic and diluted	15	**0.14**	0.33	**0.31**	0.70

See accompanying notes to the condensed consolidated interim financial statements (unaudited).

Condensed Consolidated Interim Statements of Financial Position (Unaudited)

$'000	Note	As at June 30, 2023	As at December 31, 2022
ASSETS			
Current assets			
Cash and cash equivalents		**102,872**	96,321
Trade and other receivables	9	**27,464**	35,100
Prepayments		**1,335**	1,551
		131,671	132,972
Non-current assets			
Long-term receivables	12	**10**	2,215
Capital assets	10	**97,349**	112,896
		97,359	115,111
Total assets		**229,030**	248,083
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	11	**34,257**	43,192
Tax payable		**8,010**	5,081
Current portion of long-term loan	13	**10,000**	10,000
Current portion of Additional Profits Tax		**8,145**	13,146
		60,412	71,419
Non-current liabilities			
Deferred income taxes		**22,867**	26,256
Lease liabilities	10	**–**	13
Long-term loan	13	**34,887**	39,762
Additional Profits Tax		**11,436**	15,347
		69,190	81,378
Total liabilities		**129,602**	152,797
SHAREHOLDERS' EQUITY			
Capital stock	14	**47,171**	47,257
Accumulated other comprehensive loss		**(234)**	(272)
Accumulated income		**45,848**	42,631
Non-controlling interest	20	**6,643**	5,670
		99,428	95,286
Total equity and liabilities		**229,030**	248,083

See accompanying notes to the condensed consolidated interim financial statements (unaudited).

Nature of operations (Note 1); Contractual obligations (Note 17); Contingencies (Note 18).

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

		Three Months ended June 30		Six Months ended June 30	
$'000	Note	2023	2022	2023	2022
OPERATING ACTIVITIES					
Net income		**3,282**	7,123	**7,196**	15,226
Adjustment for:					
Depletion and depreciation	10	**8,721**	6,658	**18,416**	12,312
Indirect tax	8	**343**	245	**680**	465
Stock based compensation expense (recovery)	14	**5**	(29)	**7**	(45)
Deferred income tax (recovery) expense		**(1,834)**	496	**(3,389)**	2,975
Additional Profits Tax		**2,030**	1,950	**4,234**	2,902
Unrealized loss (gain) on foreign exchange		**161**	(42)	**116**	(298)
Interest expense	8	**2,248**	2,377	**4,120**	3,841
Finance income		**–**	–	**241**	–
Change in non-cash working capital	19	**1,204**	9,823	**(7,989)**	(4,700)
Net cash flows from operating activities		**16,160**	28,601	**23,632**	32,678
INVESTING ACTIVITIES					
Capital expenditures	10	**(1,866)**	(8,598)	**(3,363)**	(15,774)
Net cash used in investing activities		**(1,866)**	(8,598)	**(3,363)**	(15,774)
FINANCING ACTIVITIES					
Lease payments		**(139)**	(138)	**(153)**	(159)
Normal course issuer bid	14	**(8)**	(88)	**(132)**	(131)
Long-term loan repayment	13	**(5,000)**	–	**(5,000)**	–
Interest paid	8	**(4,198)**	(2,669)	**(5,483)**	(4,127)
Dividends paid to shareholders	14	**(1,496)**	(1,597)	**(2,954)**	(3,175)
Net cash used in financing activities		**(10,841)**	(4,492)	**(13,722)**	(7,592)
Increase in cash		**3,453**	15,511	**6,547**	9,312
Cash and cash equivalents at the beginning of the period		**99,517**	66,993	**96,321**	72,985
Effect of change in foreign exchange on cash for the period		**(98)**	(59)	**4**	148
Cash and cash equivalents at the end of the period		**102,872**	**82,445**	**102,872**	**82,445**

See accompanying notes to the condensed consolidated interim financial statements (unaudited).

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

$'000	Capital stock	Accumulated other comprehensive loss	Accumulated income	Non-Controlling interest	Total
Note	*14*		*14*	*20*	
Balance as at December 31, 2022	47,257	(272)	42,631	5,670	95,286
Share repurchase	(86)	–	(46)	–	(132)
Dividends declared	–	–	(2,960)	–	(2,960)
Foreign currency translation adjustment on foreign operations	–	38	–	–	38
Net income	–	–	6,223	973	7,196
Balance as at June 30, 2023	**47,171**	**(234)**	**45,848**	**6,643**	**99,428**

$'000	Capital stock	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	(78)	–	(53)	–	(131)
Dividends declared	–	–	(3,147)	–	(3,147)
Foreign currency translation adjustment on foreign operations	–	(82)	–	–	(82)
Net income	–	–	13,958	1,268	15,226
Balance as at June 30, 2022	47,376	(259)	31,819	4,384	83,320

See accompanying notes to the condensed consolidated interim financial statements (unaudited).

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 June 30, 2023 and for the three and six months ended June 30, 2023 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 August 16, 2023. The Company is controlled by Shaymar Limited who is the registered holder of 24.8% of the equity and controls 71.6% 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") until the PSA expires in October 2026.

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

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

2. Basis of Preparation

Statement of Compliance

The 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, 2022.

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.

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, 2022. There have been no changes in accounting policies for the six month period ended June 30, 2023 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, 2022.

See Note 4 of the audited consolidated financial statements for the year ended December 31, 2022 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 June 30, 2023 and December 31, 2022, loss allowance exists against all of the long-term TANESCO receivable, gas plant operations and capital expenditure receivables from Songas, and a receivable of $0.5 million from one industrial customer.

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 June 30, 2023 the Company has working capital, defined as total current assets less total current liabilities, of $71.3 million which is net of $60.4 million of financial liabilities with regards to trade and other liabilities of which $35.1 million is due within one to three months, $5.0 million is due within three to six months, and $20.3 million is due within six to twelve months (see Note 11).

As at June 30, 2023 approximately 25% 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 reduced travel throughout the world. 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 as of Q2 2023, 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 or Euros 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 Q1 and Q2 2023 the Company's producing assets were entirely located in Tanzania.

7. Revenue

	Three Months ended June 30		Six Months ended June 30	
$/000	2023	2022	2023	2022
Industrial sector	**10,943**	10,834	**21,052**	21,700
Power sector	**23,423**	23,484	**50,057**	42,429
Gross field revenue	**34,366**	34,318	**71,109**	64,129
TPDC share of revenue	**(10,636)**	(9,924)	**(22,209)**	(14,442)
Company operating revenue	**23,730**	24,394	**48,900**	49,687
Current income tax adjustment	**4,276**	3,829	**9,513**	5,988
	28,006	28,223	**58,413**	55,675

The Company recognized 100% of amounts invoiced for deliveries to TANESCO as revenue during the first six months of 2022 and 2023.

During Q2 2023 the Company invoiced TANESCO $6.9 million for gas deliveries (Q2 2022: $11.1 million) and received $2.8 million in payments for current receivables (Q2 2022: $6.9 million). These amounts are inclusive of value added tax ("VAT"). Based on the consistent payments from TANESCO, the Company: (i) recognized all amounts invoiced for gas deliveries in Q2 2023 and Q2 2022 as revenue; and (ii) recognized $ nil during Q2 2023 (Q2 2022: $ 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). During Q2 2023 TANESCO paid the Company $6.5 million against the 2020 take or pay invoice and $3.3 million against the 2021 take or pay invoice.

Subsequent to June 30, 2023 the Company has invoiced TANESCO $1.1 million for July 2023 gas deliveries and TANESCO has paid the Company $3.3 million. Additionally, subsequent to June 30, 2023 TANESCO paid the Company $3.4 million against the 2021 take or pay invoice.

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

8. Finance Income and Expense

Finance Income

	Three Months ended June 30		Six Months ended June 30	
$'000	2023	2022	2023	2022
Interest income	**455**	65	**718**	126
	455	65	**718**	126

Finance Expense

	Three Months ended June 30		Six Months ended June 30	
$'000	2023	2022	2023	2022
Base interest expense	**1,219**	1,463	**2,545**	2,920
Participation interest expense	**1,028**	908	**1,571**	908
Lease interest expense	**1**	6	**4**	13
Interest expense	**2,248**	2,377	**4,120**	3,841
Net foreign exchange loss	**314**	145	**1,286**	220
Indirect tax	**343**	245	**680**	465
Long-term receivable write off	**2,205**	–	**2,205**	–
	5,110	2,767	**8,291**	4,526

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

The indirect tax includes VAT on the invoices to TANESCO for interest on late payments. Long-term receivable write off is related to VAT on the workovers that had already been paid and was reclassified as a long-term receivable in 2017 (see Note 12).

9. Current Trade and Other Receivables

	As at	
$'000	June 30, 2023	December 31, 2022
Trade receivables		
Songas	**2,301**	2,511
TPDC	**4,242**	4,694
TANESCO	**3,597**	3,736
Industrial customers	**9,781**	11,072
Loss allowance	**(452)**	(452)
	19,469	21,561
Other receivables		
Songas gas plant operations	**3,107**	2,304
Songas well workover program	**1,070**	7,825
Other	**4,543**	4,135
Loss allowance	**(725)**	(725)
	7,995	13,539
	27,464	35,100

9. Current Trade and Other Receivables cont.

Songas

As at June 30, 2023 the Company recognises a receivable from Songas of $6.5 million (December 31, 2022: $12.6 million), while the Company owed Songas $2.9 million (December 31, 2022: $2.9 million). The amounts due to the Company are mainly for sales of gas of $2.3 million (December 31, 2022: $2.5 million), the well workover program of $1.1 million (December 31, 2022; $7.8 million) and for the operation of the gas plant of $3.1 million (December 31, 2022: $2.3 million) against which the Company has made a loss allowance of $0.7 million (December 31, 2022: $0.7 million). In Q2 2023, Songas agreed to pay the Company $7.6 million as full and final settlement of their share of the workover costs of the SS-5 and SS-9 wells. The impact of this settlement will be recognised on its receipt in monthly instalments across Q4 2023 and Q1 2024. The amounts due to Songas primarily relate to pipeline tariff charges of $2.3 million (December 31, 2022: $2.4 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 June 30		Six Months ended June 30	
$'000	2023	2022	2023	2022
Reversal of loss allowance	**1,495**	2,049	**1,495**	2,049

The reversal of loss allowance of $1.5 million in Q2 2023 and for the six months ended June 30, 2023 is associated with the indirect taxation related to the TANESCO 2020 and 2021 take or pay invoices which were paid in Q2 2023 and had been previously not recognized. The reversal of loss allowance of $2.1 million in Q2 2022 and for the six months ended June 30, 2022 is associated with indirect taxation related to the TANESCO 2017 take or pay invoice which was paid in Q2 2022 and had been previously not recognized.

10. Capital Assets

$'000	Natural gas interests	Office and other	Right-of-use	Total
Costs				
As at December 31, 2022	290,001	3,189	1,135	294,325
Additions	2,999	111	–	3,110
Disposals	(958)	(96)	–	(1,054)
As at June 30, 2023	**292,042**	**3,204**	**1,135**	**296,381**
Accumulated depletion and depreciation				
As at December 31, 2022	177,541	2,971	917	181,429
Additions	18,225	52	139	18,416
Disposals	(717)	(96)	–	(813)
As at June 30, 2023	**195,049**	**2,927**	**1,056**	**199,032**
Net book values				
As at June 30, 2023	**96,993**	**277**	**79**	**97,349**

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 June 30, 2023 the estimated future development costs required to bring the total proved reserves to production were $56.2 million (December 31, 2022: $59.2 million). During the six months ended June 30, 2023 the Company recorded depreciation of $0.2 million (six months ended June 30, 2022: $0.2 million) in general and administrative expenses.

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

10. Capital Assets cont.

Right-of-use assets

$'000	
As at December 31, 2022	218
Depreciation	(139)
As at June 30, 2023	**79**

Lease liabilities

$'000	
As at December 31, 2022	170
Lease interest expense	4
Lease payments	(153)
As at June 30, 2023	**21**

Right-of-use assets are presented as part of capital assets on the Company's balance sheet. Of the total lease liability of $0.02 million (December 31, 2022: $0.2 million), $0.02 million (December 31, 2022: $0.2 million) is current and is presented in trade and other liabilities.

11. Trade and Other Liabilities

	As at	
$'000	June 30, 2023	December 31, 2022
Songas	**2,915**	2,933
Other trade payables	**2,790**	2,738
Trade payables	**5,705**	5,671
TPDC Profit Gas entitlement, net	**15,040**	19,440
Deferred income – take or pay contracts	**7,110**	10,665
Accrued liabilities	**6,402**	7,416
	34,257	43,192

TPDC share of Profit Gas

	As at	
$'000	June 30, 2022	December 31, 2021
TPDC share of Profit Gas	**27,902**	28,677
Less "Adjustment Factor"	**(12,862)**	(9,237)
TPDC Profit Gas entitlement, net	**15,040**	19,440

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 $15.0 million liability to TPDC is dependent on receipt of payment from TANESCO for long-term arrears that have been fully allowed for.

12. Long-term Receivables

$'000	As at June 30, 2023	As at December 31, 2022
Amounts invoiced to TANESCO	**87,063**	92,547
Trade receivables – TANESCO	**(3,597)**	(3,736)
Unrecognized amounts not meeting revenue recognition criteria[1]	**(61,448)**	(66,793)
Loss allowance	**(22,018)**	(22,018)
Net TANESCO receivable	**–**	–
VAT – Songas workovers	**–**	2,205
Lease deposit	**10**	10
	10	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 2022 and the first six months of 2023. During 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 in Q3 2022, 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. In Q2 2023, Songas agreed to pay the Company $7.6 million as full and final settlement of their share of the workover costs of the SS-5 and SS-9 wells. Pursuant to the agreement with Songas, the originally issued invoices will not be settled, hence the recovery of the associated VAT of $2.2 million has been written off in Q2 2023. On receipt of the $7.6 million cash from Songas, due to be paid in monthly instalments across Q4 2023 and Q1 2024, the Company will credit the PSA cost pool accordingly.

13. Long-term Loan

In 2015 PAET obtained 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, in 2018, the Company agreed with the IFC to reduce the outstanding amount of the Loan by the percentage interest sold of 7.9% ($4.8 million) before the fourth anniversary of the first drawdown. PAET made this payment on October 16, 2019.

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

$'000	As at June 30, 2023	As at December 31, 2022
Loan principal	**45,240**	50,240
Financing costs	**(353)**	(478)
Current portion of long-term loan	**(10,000)**	(10,000)
	34,887	39,762

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

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					
	June 30, 2023			December 31, 2022		
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**	**18,092**	**46,188**	100,000	18,126	46,274
First preference shares	**100,000**	**–**	**–**	100,000	–	–
	250,000	**19,842**	**47,171**	**250,000**	**19,876**	**47,257**

During 2023 the Company repurchased and cancelled 33,800 Class B Shares at a weighted average price of CDN$4.92 per Class B Share under a normal course issuer bid. All issued capital stock is fully paid.

Changes in Stock Appreciation Rights ("SARs")

$'000	SARs (000)	Exercise price (CDN$)
Outstanding as at December 31, 2022	14	5.02
Outstanding as at June 30, 2023	**14**	**5.02**

The number outstanding, the weighted average remaining life, the number exercisable and the weighted average exercise prices of SARs at June 30, 2023 were as follows:

Exercise price (CDN$)	Number outstanding (000)	Weighted average remaining contractual life (years)	Number exercisable (000)	Weighted average exercise price (CDN$)
5.02	14	0.5	14	5.02
5.02	**14**	**0.5**	**14**	**5.02**

14. Capital Stock cont.

Changes in Restrictive Stock Units ("RSUs")

$'000	RSUs (000)	Exercise price (CDN$)
Outstanding as at December 31, 2022	3	0.01
Outstanding as at June 30, 2023	**3**	**0.01**

The number outstanding, the number exercisable and the weighted average remaining life of RSUs at June 30, 2023 were as follows:

Exercise price (CDN$)	Number outstanding (000)	Number exercisable (000)	Weighted average remaining contractual life (years)
0.01	**3**	**3**	**0.5**

As SARs and RSUs are settled in cash, they are re-valued at each reporting date using the Black-Scholes option pricing model with the resulting liability being recognized in trade and other liabilities. In the valuation of stock appreciation rights and restricted stock units as at June 30, 2023, the following assumptions have been made: a risk free rate of interest of 1.0% (December 31, 2022: 1.0%), stock volatility of 23.2% (December 31, 2022: 25.4% to 37.8%), 5% forfeiture (December 31, 2022: 5%) and a closing stock price of CDN$5.24 (December 31, 2022: CDN$4.68) 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	June 30, 2023	December 31, 2022
SARs	**14**	9
RSUs	**10**	9
	24	18

Dividend Summary

Declaration date	Record date	Payment date	Amount per share (CDN$)
May 17, 2023	June 30, 2023	July 14, 2023	0.10
February 24, 2023	March 31, 2023	April 14, 2023	0.10
November 16, 2022	December 31, 2022	January 13, 2023	0.10
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

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

15. Earnings Per Share

	Three Months ended June 30		Six Months ended June 30	
(000)	2023	2022	2023	2022
Outstanding shares				
Weighted average number of Class A and Class B Shares	**19,842**	19,938	**19,849**	19,941
Weighted average diluted number of Class A and Class B Shares	**19,842**	19,938	**19,849**	19,941

The calculation of earnings per share is based on a net income attributable to shareholders for the quarter of $2.7 million (Q2 2022: $6.6 million) and a weighted average number of Class A Shares and Class B Shares outstanding during the quarter ended June 30, 2023 of 19,842,209 (Q2 2022: 19,937,613). The calculation of earnings per share for the six months ended June 30, 2023 is based on a net income of $6.2 million (six months ended June 30, 2022: $14.0 million) and a weighted average number of Class A Shares and Class B Shares outstanding for the six months ended June 30, 2023 of 19,848,695 (six months ended June 30, 2022: 19,940,970).

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 $0.4 million during the quarter ended June 30, 2023 (Q2 2022: $0.1 million) and $0.5 million for the six months ended June 30, 2023 (six months ended June 30, 2022: $0.3 million).

As at June 30, 2023 the Company had a total of $0.5 million (December 31, 2022: $0.1 million) recorded in trade and other payables in relation to related parties.

17. Contractual Obligations

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 305 Bcf as at June 30, 2023 (December 31, 2022: 289 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.

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 GoT 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 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 was credited to the Cost Pool in Q2 2022. In 2023 the Company and PURA negotiated a settlement on certain rejections with respect to 2019 to 2020 audits. As a result of this, $0.7 million was credited to the Cost Pool in Q2 2023. To date there remains a total of $63.3 million of costs that have been queried or rejected by TPDC or PURA through the cost pool audit process.

18. Contingencies cont.

Taxation

Amounts in $' millions					As at June 30, 2023	As at December 31, 2022
Area	Period	Reason for dispute	Principal	Interest	Total	Total
Income Tax	2008-09, 2011-20	Deductibility of capital expenditures and expenses (2012, 2015 and 2016), additional income tax (2008, 2011 and 2012), foreign exchange rate application (2013 to 2015, 2018 to 2020), underestimation of tax due (2014, 2016 and 2020) and methodology of grossing up of income taxes paid (2015 to 2017).	19.5	12.8	**32.3**	34.2
Tax on Repatriated Income	2012-21	Applicability of withholding tax on repatriated income (2012 to 2021)	21.7	3.7	**25.4**	24.9
VAT	2012-20	VAT already paid (2012 to 2014), VAT on imported services (2015 and 2016), interest on VAT decreasing adjustments (2017) and input VAT on services (2017 to 2020).	0.3	1.3	**1.6**	1.6
			41.5	17.8	**59.3**	60.7

During 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 to 2016, tax on repatriated income for the years of 2012 to 2014, and VAT for the years of 2015 to 2016. On several occasions during 2022 these matters came for hearing, and in April 2023, the Company received determination letters from the TRA. Further to that, in May 2023, the TRA issued final corporate income tax assessments for the years of 2012 to 2016, in which the TRA agreed to drop certain claims with respect to previously assessed corporate income tax for the years of income of 2012 and 2016. These claims are no longer represented in the table above.

On May 22, 2023, the TRAB pronounced its judgement on the VAT appeal for the years of 2015 and 2016 ($0.2 million) in favour of the Company. A written judgement is still pending. The TRA did not file a Notice of Intention to Appeal at Tax Revenue Appeals Tribunal ("TRAT") by the statutory filing deadline. The Company continues to monitor actions taken by the TRA.

On May 15, 2023, the Company filed statements of appeal at the TRAB for the remainder of claims on TRA's notice of assessments with respect to the corporate income tax assessments for the years of 2012 to 2016 and tax on repatriated income for the years of 2012 to 2014, and is awaiting a hearing date.

In Q4 2022, the TRA issued seven assessments for tax on repatriated income ($10.6 million) for the years of 2015 to 2021. The Company objected to the assessments on the grounds of the assessments lacking merit; additionally, the assessments for the years of 2015 and 2016 were time-barred. In Q1 2023, the Company received TRA's proposals to settle the objections. In Q2 2023, the Company responded to the proposals and is now awaiting TRA's final determination.

In Q4 2022, the TRA issued six assessments for income tax and for ensuing interest on deemed delayed payments ($0.5 million) for the years of 2018 to 2020. The Company objected to the assessments on the grounds of incorrect disallowance of expenses and use of exchange rates. The Company is awaiting TRA's response.

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 Court of Appeal of Tanzania ("CAT"). See Note 21 of the audited consolidated financial statements for the year ended December 31, 2022 for a full discussion.

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

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

19. Change in Non-Cash Operating Working Capital

	Three Months ended June 30		Six Months ended June 30	
$'000	2023	2022	2023	2022
Decrease (increase) in trade and other receivables	**1,789**	(1,434)	**6,950**	(7,175)
Decrease in prepayments	**88**	234	**216**	345
Decrease in long-term receivables	**2,205**	–	**2,205**	–
(Decrease) increase in trade and other payables	**(3,062)**	9,993	**(7,143)**	8,977
Decrease in APT	**–**	–	**(13,146)**	(8,503)
Increase in tax payable	**184**	1,030	**2,929**	1,656
	1,204	9,823	**(7,989)**	(4,700)

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 Preference Shares pursuant to a share purchase agreement. The Preference Shares entitled 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 was at the discretion of Swala TZ based on funds available, however, the liability accrued if any amount was unpaid when due. For any distributable amount remaining unpaid at December 31, 2021, the Company may demand settlement and Swala TZ was 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 June 30, 2023, the Company has not received any distributions or recorded any amount receivable related to the Preference Shares.

Swala TZ was 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 did not redeem in cash the required number of Preference Shares, Swala TZ was 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 is equal the amount of any outstanding redemption. 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. On January 31, 2023 the Company issued a further redemption notice to Swala TZ, requesting that Swala TZ redeem a further 20% of the outstanding Swala TZ's Preference Shares by February 15, 2023. As at June 30, 2023, this matter remained in dispute between Swala TZ and the Company and the Company's request under both redemption notices remained outstanding.

On April 3, 2023, Swala TZ announced that its creditors resolved that Swala TZ be placed into liquidation at a creditors' meeting held on March 31, 2023. On March 31, 2023, Apex Corporate Trustees (UK) Limited appointed representatives of Grant Thornton UK LLP as administrators of Swala's TZ subsidiary, Swala (PAEM) Limited ("Swala UK"). Subsequent to June 30, 2023, the Company has repurchased the 7.9% shares in PAEM held by Swala UK (currently in administration), for $7.5 million and the non-controlling interest will be eliminated in the Q3 report. The $4.0 million due to the Company by way of preference share redemptions from Swala TZ remain outstanding, however the Company has submitted a notice of claim to the Tanzanian liquidators.

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

	As at	
$'000	June 30, 2023	December 31, 2022
Balance, beginning of period	**5,670**	3,116
Net income attributable to non-controlling interest	**973**	2,554
Balance, end of period	**6,643**	5,670

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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